

## Balaji Enterprises Private Limited: Ratings reaffirmed

September 04, 2023

### Summary of rating action

Instrument*	Last rated amount (NPR Million)	Current rated amount (NPR Million)	Rating Action
Fund-based; long term limits	86.2	74.3	[ICRANP] LBB-; reaffirmed
Fund-based; short term limits	50.0	50.0	[ICRANP] A4; reaffirmed
Non-Fund-based; short-term limits	530.0	650.0	
Short-term limits (unallocated and proposed)	83.8	-	
<b>Total</b>	<b>750.0</b>	<b>774.3</b>	

\* Instrument details are provided in [Annexure-1](#).

### Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the long-term loans of Balaji Enterprises Private Limited (BEPL or the company). ICRA Nepal has also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term limits of the company.

### Rationale

The reaffirmation continues to factor in the long track record of the company's promoter in the food grain trading industry in Nepal. The rating notes the good demand prospect for the food grains and legumes, which forms major part of staple diet in Nepal, as evidenced by the scale growth over the years (notwithstanding the range-bound sales in the last 2-3 years). The rating also considers BEPL's moderate gearing and comfortable debt coverage indicators during the last four years ending in FY2022.

The rating, however, remains constrained by moderate profitability profile and weak liquidity position of the company. Rising scale of business, low profitability and steady working capital intensity has blocked sizeable fund in working capital financing. The resulting strain in liquidity is also evident in occasional overutilization of drawing power for working capital loan utilization. At the same time, the debtors remain mostly unsecured, which exposes the company to receivable risk. BEPL's business remains mostly import-based (~68% of products imported from India in FY2022), which makes it vulnerable to supply chain disruption, change in the Government of Nepal's (GoN) policy on general imports and Indian government's policy on exports, agriculture-related policies of both countries as well as the changes in global prices of the agricultural commodity. Being an agro-based industry, BEPL is also exposed to agro-climactic risk, which has been factored into the rating action.

Going forward, BEPL's ability to improve its margin and manage its working capital will have a bearing on its profitability, capitalisation, and coverage ratios, and therefore will remain key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Promoters' industry experience** – Mr. Mukesh Kumar Agrawal (Managing Director of BEPL) has over two decades of experience in the trading of food grains in Nepal. Likewise, Mr. Nitin Agrawal (Chief Executive Officer of BEPL), has over

seven years of experience in trading. The promoters' and key management's experience, traction in the local market and sectoral expertise remain rating positives.

**Positive demand outlook** – BEPL's major product lines, such as peas, maize, and rice, are a part of Nepal's staple diet. With growth in urbanization and disposable income, the long run demand outlook for food-items remains good. The slowdown in the growth of the domestic agricultural output also supports the prospects of import-based players like BEPL (~68% of products imported from India in FY2022). This is also evident from the scale growth reported by the company over the years.

**Adequate debt coverage indicators**– The coverage indicators of BEPL remained adequate with interest coverage ratio of 2.6 times during FY2022 (2.8 times in FY2021) and debt service coverage ratio (DSCR) of 2.2 times in FY2022 (2.5 times in FY2021). The coverage indicators slightly declined in recent quarters on accounts of high interest rate in Nepalese banking sector. The coverage indicators could remain suppressed going forward amid the possible decline in revenue caused by inflationary economic outlook.

### Credit challenges

**Moderate profitability profile and stretched liquidity** – BEPL's profitability profile remained moderate with low operating margin of ~2% during the last four financial years ending FY2022, partly due to penetrative market strategy adopted by the company. Profitability in years ahead is expected to slightly moderate amid high finance cost. Moreover, overutilization of working capital drawing power by the company in the recent years and a weak current ratio (~1 times during the last five financial year ending FY2022) indicates strain in the company's liquidity.

**Fragmented market amid competition** – The food grain and legumes trading industry in the country consists of several organized/unorganized players. This, coupled with the low entry barrier exposes players like BEPL to an uncertain competitive landscape which could exert further margin pressure on companies like BEPL.

**Supplier risk and agro-climactic risks** – Nepal is a net importer of food products, including food grains, legumes, and animal feed, as the domestic demand exceeds the domestic agricultural output, which is mostly subsistence-based and results in low agricultural surplus at the producers' level. As such, players like BEPL are highly reliant on import for their business. Therefore, any change in the import regulations related to agricultural produce can have a direct impact on the company's business and cash flow. Additionally, occasional restrictions on export placed by exporting nations (such as India) could affect the business profile of BEPL that is largely reliant on imports. Also, being a part of the agro-based industry, BEPL's revenue and profitability remain susceptible to the agro-climatic risks like floods, drought, pests, etc.

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**Links to previous rating rationale:** [Balaji Enterprises Private Limited BLR Surveillance May 2022](#)

### About the company

Incorporated in August 2015, Balaji Enterprises Private Limited (BEPL) is the importer and trader of various food grains, legumes, and animal feed. Its corporate office is in Birgunj, Nepal. The company sources its products mainly from India and to some extent, from farmers in Nepal. The unprocessed grains/legumes are sold to the processing mills in Nepal,

whereas the processed items are sold to the retailers in Nepal. The animal feed is sold to individuals and companies involved in animal husbandry.

The entire stake of Balaji Enterprises is held by Mrs. Babita Kumari Siska (Agrawal). Mr Mukesh Kumar Agrawal is the managing director of Balaji Enterprises Private Limited and Mr. Nitin Agrawal is the Chief Executive Officer.

### Key financial indicators

	FY2019	FY2020	FY2021	FY2022	9MFY2023
	Audited				Provisional
Operating income-OI (NPR million)	1,967	4,195	3,750	4,800	3,002
OPBDITA/OI (%)	1.9%	1.9%	2.0%	2.1%	2.9%
Total debt/Tangible net-worth-TNW (times)	4.6	5.5	3.3	2.6	1.7
Total outside liabilities/ TNW (times)	13.4	15.3	7.5	4.4	3.3
Total debt/OPBDITA (times)	5.3	5.8	5.6	4.4	3.1
Interest coverage (times)	2.2	2.5	2.8	2.6	2.7
DSCR	1.9	2.2	2.5	2.2	1.8
NWC /OI (%)	12%	13%	14%	10%	11%
Current ratio (times)	1.1	1.1	1.1	1.2	1.3

Source: Company data

### Annexure-1: Instrument Details

Instrument	Last rated limit (NPR Million)	Current rated limit (NPR Million)	Rating Action
<b>Long-term loan limits</b>	<b>86.2</b>	<b>74.3</b>	[ICRANP] LBB-; reaffirmed
Fund-based (term loan and hire purchase loan)	86.2	74.3	
<b>Short-term loan limits (B)</b>	<b>663.8</b>	<b>700.0</b>	[ICRANP] A4; reaffirmed
Non-fund based; Letter of Credit/ Bank Guarantee	530.0	530.0	
Proposed Letter of Credit	-	120	
Fund-based (Overdraft)	50.0	50.0	
Fund-based (TR/STL, within non-fund based)	(530.0)	(530.0)	
Proposed loan; unallocated	83.8	-	
<b>Grand Total (A+B)</b>	<b>750.0</b>	<b>774.3</b>	

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## About ICRA Nepal Limited:

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