

## Sujal Foods Private Limited: [ICRANP] LBB/A4 assigned

November 27, 2023

### Summary of rating action

Instrument*	Rated Limits (NPR Million)	Rating Action
Long term loans: fund based	127.71	[ICRANP] LBB; assigned  [ICRANP] A4; assigned
Short-term loans; non-fund-based	390.00	
Short-term loans; fund-based	370.00	
<b>Total</b>	<b>887.71</b>	

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

### Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB (pronounced ICRA NP L Double B) to the long-term limits of Sujal Foods Private Limited (SFPL or the company) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term limits.

### Rationale

The assigned ratings factor in SFPL's established track record of operations of around three decades (established in 1995) and strong brand recognition of the company's products. The ratings are also supported by the satisfactory revenue expansion of the company in the past five years ending FY2023 with a CAGR of ~8%; supported by a diversified product portfolio and adequate distribution network spread across Nepal. Additionally, the long track record, experience and reputation of the promoters (Laxmi Group) in the Nepalese business sectors provide comfort.

However, the ratings are mainly constrained by low operating margins and leveraged financial position translating into weak profitability and stretched debt coverage indicators. The low-price points of SFPL's products remain a drag on the company's operating margins amid volatility in raw material prices. Competitive pressure from imports limits the ability of the company to pass on the increased cost to the customers, as evidenced by the margin pressure over the years. Amid the low profit margins and internal accruals, the company's moderately high working capital intensity over the years has strained its short-term liquidity. This strain is reflected in SFPL's sustained overutilisation of working capital drawing power. The company also remains highly dependent on the import of raw materials, exposing the company to exogenous supply disruptions and price volatility. SFPL also remains exposed to regulatory changes on existing import duties, agro-climatic risk and changing preferences of consumers.

Going forward, the company's ability to improve margins 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

**Established track record and experienced promoters** – Incorporated in 1995, SFPL has an operational track record of around three decades in the Nepalese confectionery industry. SFPL also has a healthy market share in low-priced wafer and hard-candy segments. SFPL is a unit under the Laxmi Group, which has a long track record and diversified business

presence in sectors such as automobile, steel, FMCG and others. The established track record of operations and long experience of the promoters in the Nepalese business arena remain credit positives.

**Satisfactory revenue growth, diversified product portfolio and good brand recognition** – SFPL reported satisfactory revenue expansion with a CAGR of ~8% in the last five years ending in FY2023 and a YoY growth of ~8% in FY2023. SFPL's prominent products such as 'Choco fun' (chocolate wafer), 'Rasilo' and 'Fresho' (hard candy) have gained strong traction among customers over the years, which has aided the company's revenue in recent years. For FY2021 and FY2022, wafers and candies collectively accounted for half of its sales revenue while the remaining was accounted for by other products such as toffees (eclairs, love birds), gums (bubbly) and lollypop (smart), signifying a relatively diversified product portfolio. The company's sales also remain supported by its established and diversified distribution network comprising over 230 dealers across Nepal.

## Credit challenges

**Leveraged financial structure and moderate debt coverage indicators** – The financial profile of SFPL remains modest with high TD/OPBITDA<sup>1</sup> of 5.5 times as on mid-July 2023 (FY2023). The low operating margin of the company over the years due to the low-price points of its products and increasing raw material prices suppress the operating profitability. Given the low OPBITDA, the company's debt coverage indicators remained modest with interest coverage of 1.6 to 1.9 times and DSCR of ~1 times in the past two years ending in FY2023. Moreover, sustained stress on short-term liquidity is also evident from the over-utilised working capital drawing power, limiting the headroom for SFPL to absorb any major incremental liquidity shocks.

**Supplier risk and risk of volatility in raw material prices** – SFPL's dependence on the import of raw materials (cocoa, palm fat, etc) exposes the company's operations and financials to the risk arising from supply chain disruption, price volatility and other such factors. Any change in the import regulations related to such materials can have a direct impact on the company's business and cash flow. Additionally, the price volatility of sugar in the domestic market during the period of export restriction by India could affect the business profile of SFPL. Moreover, major raw materials of the confectionery industry such as cocoa, palm fat and sugar are agro-based products. These remain susceptible to agro-climatic risks such as floods, drought, pest attacks and other events, which could affect the availability and price of raw materials, thereby negatively impacting SFPL's revenue profile.

**Industry competition and changing customer preferences** – The confectionery industry is fragmented given the presence of many local as well as imported brands. The introduction of new products from established international companies exposes domestic players such as SFPL to an uncertain landscape, which could exert further margin pressure. The company's ability to timely respond to such competitive pressure as well as adapt to the changing customer behaviour and preferences will remain essential to protect the market share.

**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](#)

## About the company

Established in 1995, Sujal Foods Private Limited (SFPL) is a confectionery manufacturer, engaged in the production of a wide range of products such as wafers, lollipops, candies, toffees and other related items. Its flagship brand 'Choco fun' a cocoa-based wafer (introduced in 1999) has gained strong traction over the last two decades in Nepal. SFPL has a wide

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<sup>1</sup> TD-total debt; OPBDITA-Operating profit before depreciation, interest expense, tax and amortisation.

distribution network of over 230 dealers spread across Nepal. The company's registered office and two manufacturing units are in Pokhara, Gandaki Province.

SFPL is a unit under the Laxmi Group and its major shareholders include Mr. Ganesh Bahadur Shrestha (the current Chairman), Mr. Sunil Shrestha, Mr. Anjan Shrestha, Mr. Nirajan Shrestha and Mr. Nirakar Shrestha with ~17% equity stake, respectively. The remaining 15% stake is held by the other three individuals.

### Key financial indicators

	FY2019	FY2020	FY2021	FY2022	FY2023
		Audited			Provisional
Operating income (OI; NPR million)	1,407	1,466	1,805	1,892	2,038
OPBITDA/OI (%)	7.3%	8.1%	12.4%	5.3%	6.5%
Total debt/Tangible net worth (TNW; times)	2.5	2.6	1.8	2.3	2.1
Total outside liabilities/TNW (times)	3.6	3.5	2.6	3.4	3.5
Total debt/OPBITDA (times)	5.9	5.5	2.9	7.7	5.5
Interest coverage (times)	1.65	1.86	5.25	1.97	1.62
DSCR (times)	1.32	1.39	2.22	0.97	0.96
Net working capital/OI (%)	23%	26%	28%	29%	26%
Current ratio	0.8	0.9	1.0	0.9	0.9

Source: Company data

### Annexure-1: Instrument Details

Instrument	Current Rated Amount (NPR million)	Rating Action
<b>Long term limits; fund-based (A)</b>	<b>127.71</b>	
Long-term loans	127.71	[ICRANP] LBB; assigned
<b>Short term limits: fund based (B)</b>	<b>370.00</b>	
Cash credit/Overdraft	120.00	[ICRANP] A4; assigned
Demand loan/Short term loan/TR loan	250.00	
<b>Short term limits: non-fund based (C)</b>	<b>390.00</b>	
Letter of Credit (LC)/ Bank Guarantee (BG)	390.00	
<b>Grand Total (A+B+C)</b>	<b>887.71</b>	

### Analyst Contacts:

**Mr. Sailesh Subedi** (Tel No. +977-1-4519910/20)  
[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Ms. Banu Pandey** (Tel No. +977-1-4519910/20)  
[banu@icranepal.com](mailto:banu@icranepal.com)

### Relationship Contacts

**Ms. Barsha Shrestha** (Tel No. +977-1-4519910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

## About ICRA Nepal Limited

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### ICRA Nepal Limited

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:** +977 1 4519910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

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