Mahabir Overseas Private Limited: Ratings reaffirmed and removed from 'Issuer Not Cooperating' category

January 08, 2024

Summary of rating action

Instrument* (Amount in NPR Million)	Last Rated Amount	Current Rated Amount	Rating Action
Fund-based; long-term limits	24	30	[ICRANP] LB+; reaffirmed and removed from 'Issuer Not Cooperating' category
Fund-based; short term limits	591	1,126	[ICRANP] A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Non-fund Based; short term limits	380	47	
Total	**995**	**1,203**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term loans and also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loans of Mahabir Overseas Private Limited (MOPL or the company). The ratings have also been removed from 'Issuer not cooperating' category.

Rationale

The ratings mainly remain constrained by the company's increased leverage levels during FY2023, which along with the reduced scalability and spiked borrowing rates in the interim, has led to modest debt coverage metrics (borderline DSCR of 1.1 times). Accordingly, the company's internal accruals have remained muted in the last two fiscal years while the working capital cycle/liquidity profile has stretched further, including the sustained overutilisation of drawing power. Furthermore, the foodgrain processing industry continues to remain highly competitive, given the low entry barriers and the resulting fragmented industry. At the same time, MOPL's debtors remain mostly unsecured which also exposes the company to non-realisation risks. ICRA Nepal also takes note of MOPL's business being almost entirely import-based which renders it vulnerable to any change in the Government of Nepal's (GoN) policies regarding imports/duty structure. Being an agro-based industry, MOPL is also exposed to agro-climactic risks, which generally has bearing in the raw material prices' volatility and hence the company's margins, as seen in recent years.

Nonetheless, the ratings take positive note of the long track record of the company's promoters in the primary food processing industry in Nepal. Despite the reported revenue decline in FY2023, the longer-term demand prospects for the company remains positive given the nature of its products being daily consumption essentials. The ratings also factor in MOPL's established supply chain and traction in the local market as well as its diversified customer base. Going forward, the ability of the company to improve its profitability, leverage and streamline its working capital management would be the key rating drivers.

Key rating drivers

Credit strengths

Promoters' industry experience – Kedia Group, the major promoter group of MOPL, is among the established business houses in Nepal with investment across diversified segments such as trading, manufacturing and financial services. The Group has a long history in the trading and processing of foodgrains in Nepal, which was its major portfolio, before their diversification into other sectors. In addition to MOPL, which deals mostly in pulses and beans, the Group has multiple units involved in primary food processing related to wheat, sugarcane, rice, edible oil etc. The resulting business synergies in the purchase, distribution and recovery processes remain a positive for MOPL.

Positive demand outlook over the long term – Pulses and beans, MOPL's major product lines, are a part of Nepal's staple diet. The long-term demand outlook for players like MOPL, which are involved in the import and processing of pulses, is likely to remain good given the growing urbanisation and spending power as well as the slowdown in domestic agricultural output. Despite the recent slowdown in FY2023, the longer-term outlook for the company remains positive.

Credit challenges

Volatile margins and increased debt levels leads to a modest financial profile – Amid the volatility in raw material prices, the operating profit margins (OPM) of the company have declined from ~7% in FY2020 to ~3-4% in recent years. This coupled with the high borrowing rates prevalent during the recent years have suppressed the company's internal accruals. As a result, its financial profile continues to remain suppressed with high debt dependence, as reflected in the gearing ratio of (total debt to tangible net worth) of ~2.9 times as of mid-July 2023 (2.3 times as of mid-July 2022). Given the increased debt levels and reduced margins/scalability, MOPL's debt coverage indicators remained modest with interest coverage and DSCR of at 1.2 times and ~1.1 times, respectively in FY2023 (1.5 times and 1.3 times respectively during FY2022).

Working capital-intensive nature of business strains liquidity – MOPL's business remains highly working capital intensive by nature owing to the high inventory holding period and the high credit period allowed to the customers, as reflected in high working capital intensity (net working capital to operating income ratio) of 39% for FY2023. This necessitates working capital financing, which is largely financed through external borrowings, giving rise to interest burden and thus affecting profitability and cash flows. The stretched liquidity is also evident from the sustained breach of drawing power by the company in recent years (107% of drawing power utilised as of mid-July 2023), and a weak current ratio.

Fragmented market amid competition – The pulse processing industry in the country consists of several organised/unorganised players. This, coupled with the low entry barrier, expose players like MOPL to an uncertain competitive landscape. Rising competition in the industry is also partly responsible for the revenue slowdown, along with increasing debtor and inventory realisation period for players.

Import, forex and agro-climactic risks – Nepal is a net importer of food products, including pulses, as the domestic demand exceeds domestic agricultural output, which is mostly subsistence-based and results in low agricultural surplus at the producers' level. As such, players like MOPL are highly reliant on imports for their business. Therefore, any change in import regulations related to agricultural produce can have a direct impact on the company's business and cash flow. Imports by MOPL are mostly made under US dollar-denominated contracts from suppliers in countries across the world, while sales realisation is made in domestic currency in Nepal. As MOPL uses USD-denominated TR loans for financing such imports, which are not completely hedged, it remains exposed to the risk arising from volatility in the forex market. Also, being a part of the agro-based industry, its revenue and profitability are susceptible to the changes in agricultural production arising from agro-climatic risks like floods, drought, pests, etc.

Link to the previous rating rationale:
Rationale-Mahabir Overseas Private Limited- Surveillance (INC)-June 2023

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

Link to the applicable criteria:
Corporate Credit Rating Methodology

About the company

Mahabir Overseas Private Limited (MOPL) was incorporated in 2012 and is one of the big players in the pulse processing sector, with an installed processing capacity of 18,250 metric tonnes per annum (MTPA). The promoter group, through units such as MOPL and its sister units like Mahabir Holdings Private Limited and Mahabir International Private Limited, is among the major players in the pulse processing and supply business. MOPL imports and processes pulses and beans which are then packaged and sold under the brand name of 'Yasoda' and 'Uttam'. The company's distribution channel comprises wholesale dealers who then pass on the products to retail traders and finally to the consumers.

MOPL is a unit under the Kedia Group, one of the reputed business houses in Nepal with involvement in trading, manufacturing, financial sector etc; apart from other multiple agro-processing units. MOPL's entire paid-up capital is held equally by its two shareholders viz. Mr. Mukti Kumar Agrawal and Mr. Ankit Kedia.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating Income-OI (Revenues in NPR million)	1,560	1,732	2,338	2,501	2,183
OPBDITA[1]/OI (%)	8.1%	7.2%	4.8%	3.3%	4.2%
Total Debt/Tangible Net Worth (TNW; times)	6.7	3.0	2.4	2.3	2.9
Total Outside Liabilities/TNW (times)	7.6	4.9	3.7	4.0	4.3
Total Debt/OPBDITA (times)	7.3	4.3	4.9	6.8	7.8
Interest Coverage (times)	1.4	1.6	3.5	1.5	1.2
DSCR (times)	1.2	1.3	2.4	1.3	1.1
Net Working Capital/OI (%)	61%	35%	28%	27%	39%
Current Ratio (times)	1.1	1.1	1.1	1.1	1.2

Source: Company Data

Annexure-1: Instrument details

Instrument (Amount in NPR Million)	Last Rated Amount	Current Rated Amount	Ratings
Long-term loans; fund-based (term loan)	24	30	[ICRANP] LB+; reaffirmed and removed from 'Issuer Not Cooperating' category
Short-term loans: fund-based (overdraft/cash credit/short term loan/Import/TR loan) *	591	1,126	[ICRANP] A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Short-term loans: non-fund based (letter of credit-LC & Bank Guarantee) *	380	47	
Total	**995**	**1,203**	

* *Note: The short-term limits also consist of sub-embedded limits, mostly non-funded lines under the funded limits.*

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[1] *Operating profit before depreciation, interest, tax and amortization.*

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About ICRA Nepal Limited:

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