

Khajurico Nepal Private Limited: [ICRANP] LBB-/A4 assigned

February 05, 2024

Summary of rating action:

Instrument*	Rated Amount (in NPR Million)	Rating Action
Long term loan limits	874.7	[ICRANP] LBB-; assigned
Short-term loan limits	225.3	[ICRANP] A4; assigned
Total	1,100.0	

* Instrument 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 minus) to the long-term loans of Khajurico Nepal Private Limited (KNPL) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term loans.

Rationale

The ratings factor in the KNPL's long operational track record (since 1995), its established brand name 'Khajurico' and its experienced promoter and management profile. These operational strengths are reflected in the company's steady revenue growth trajectory and decent operating profit margins (OPM) over the years despite opting almost entirely for the sales-in-advance-payment basis. Duty protection against imports and a stable demand outlook for its product lines have also contributed to KNPL's revenue trajectory. Consequently, any unfavourable changes in the import duty structure could have a bearing on the company's ratings.

Nonetheless, the ratings remain constrained by the company's modest financial profile, with a high gearing of 4.0 times as of mid-July 2023 and DSCR of 1.3 times in FY2023. KNPL has also reported sustained increase in debt levels, mainly on account of continuous debt-funded capex over the years. While the proposed equity injection could provide some comfort, any major moderation in OPM on account of raw material price and forex volatility (as seen during FY2022) could lead to sustained pressure on debt servicing indicators. The company also has sizeable operational creditors, leading to a weak current ratio of 0.3 times as of mid-July 2023. The periodic liquidity pressure on KNPL is also evident from the utilisation of working capital loans despite reporting negative net current assets. The company is also exposed to intense competition from other established industry players and importers of multinational brands, mainly in the biscuit segment. Going forward, the company's ability to improve its liquidity, debt coverage and capitalisation metrics will remain among the key rating sensitivities.

Key rating drivers

Credit strengths

Good operational profile/brand recall leading to steady revenue growth – While KNPL was established in 2004, the promoters had been earlier running the business as a proprietorship firm since 1994. The company sells biscuits, pastries/puffs and cookies under the 'Khajurico' brand. Hence, the long track record, experienced management and established brand recall have aided in steady revenue growth for KNPL, at a CAGR of ~15% in the last four years ending mid-July 2023. The company has also generally reported decent OPM (~15% in FY2023), notwithstanding the impact of raw material and fuel price volatility (as witnessed in FY2022). Despite a further increase in most input prices during FY2023, OPM improvement was mainly due to the increase in realisation of the puff segment. Good operational profile/brand strength has aided the company in selling its products, mostly against the advance payment basis.

Credit challenges

Leveraged financial structure and moderate debt coverage indicators – The financial profile of KNPL remains modest with a high gearing of 4.0 times as of mid-July 2023. This was mainly on account of continuous debt-funded capital investments carried out over the years. Given the high debt burden, KNPL's coverage indicators remain moderate with DSCR of 1.3 times in FY2023 despite reporting a decent OPM. Furthermore, capacity utilisation is yet to pick up (~50% in FY2023) in line with the series of capacity enhancements carried out over the years. The company has plans for additional equity infusion, which would aid the capitalisation profile.

Weak liquidity profile – The company has sizeable operating creditors, which along with minimal debtor days and moderate inventory days has led to a weak current ratio of 0.3 times as of mid-July 2023. Despite reporting negative net current assets, the company relies on bank borrowings for working capital financing at times, thereby evidencing the periodic strain in its liquidity profile. Therefore, timely equity infusion as envisaged, improve its liquidity, debt coverage and capitalisation metrics will remain a key rating monitorable.

Industry competition and regulatory risks – The biscuit/cookies industry is fragmented with the presence of several domestic and multinational players. Entry of new products and changing customer preferences could affect the demand for players in the FMCG segment. Although the present high import tariff on biscuits and pastries remains a positive for KNPL, any changes in these regulations could impact the business prospects. Major raw materials of the industry such as refined wheat flour, ghee, palm oil 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 these materials, thereby exposing the company's margins to these risks as witnessed recently in the case of palm oil, refined wheat flour and sugar. High competition in the biscuit segment and the resultant inability to increase retail prices for biscuits further accentuates these concerns.

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

Khajurico Nepal Private Limited (KNPL) was incorporated in April 2004 to take over the business operations that were previously conducted as a proprietorship firm since 1994. The company is involved in the manufacturing of biscuits, cookies and puffs. The manufacturing facilities are located in Lalitpur, Chitwan and Makwanpur. The shareholding of the company is held by six individuals from the same family, with Mr. Omnath Maharjan serving as the chairman.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Operating income (OI; Revenues in NPR million)	998	1,152	1,286	1,642	1,734
OPBDITA/OI (%)	13%	12%	15%	10%	14%
Total debt/Tangible net-worth-TNW (times)	6.72	6.10	4.92	4.38	4.03
Total outside liabilities/ TNW (times)	8.60	8.29	7.46	6.29	5.38
Total debt/OPBDITA (times)	6.20	5.68	4.45	6.37	4.41
Interest coverage ratio (ICR; times)	1.90	2.02	2.95	2.25	2.09
ICR including capitalised interest portion*	1.48	1.54	2.67	1.75	1.78
DSCR (times)	1.09	1.01	1.33	0.98	1.37
DSCR including capitalised interest portion*	1.08	1.01	1.31	0.98	1.33
Net-working capital/OI (%)	-10%	-14%	-13%	-13%	-8%
Current Ratio	0.44	0.42	0.56	0.40	0.34

Source: Company data

** This includes interest on borrowings related to capex costs, which are capitalised as per accounting standards, but were required to be paid as per banking norms.*

Annexure-1: Instrument details

Instrument (Amount in NPR million)	Rated limits	Rating action
Long-term loan limits (A)	874.7	[ICRANP] LBB-; assigned
Fund-based facilities; Term Loan	874.7	
Short-term loan limits (B)	225.3	[ICRANP] A4; assigned
Fund-based facilities: Cash Credit/Working Capital Loans	75.0	
Non-fund-based facilities: Letter of Credit (LC)/Bank Guarantee (BG)	150.3	
Grand Total (A+B)	1,100.0	

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About ICRA Nepal Limited

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