Mahabir Holdings Private Limited: [ICRANP] LBB- assigned; short term rating reaffirmed and removed from 'Issuer Not Cooperating' category

April 1, 2024

Summary of rating action

Instrument* (Amount in NPR Million)	Previous Rated	Current Rated	Rating Action
Long-term limits	-	275	[ICRANP] LBB-; assigned
Fund-based; short-term limits	430.0	445	[ICRANP] A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Non-fund Based; short-term limits	340.0	300	
Total	**770.0**	**1,020**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a long-term rating of [ICRA NP] LBB- (pronounced ICRA NP L double B minus) to the long-term loan limits and reaffirmed the short-term ratings of [ICRANP] A4 to the short-term loan limits of Mahabir Holdings Private Limited (MHPL). The short-term loan rating has also been removed from 'Issuer not cooperating' category.

Rationale

The rating action factors in the long track record of the promoters of MHPL in primary food processing industry in Nepal. The good demand prospects for pulses being a part of the staple diet of the population augurs well for the longer-term business profile. MHPL has reported a growth in its revenue by ~17% (CAGR) in the last three years ending FY2023, despite the moderation reported in the annual growth rate for FY2023.The groups (Kedia Group) established supply chain and traction in the local market as well as its diversified customer base is also a positive factor.

Nonetheless, the ratings remain constrained on account of the volatility in the input prices, resulting in margin volatility and affecting the profitability and liquidity position of the company. Margin volatility can be partly attributed to the change in creditor terms, as reflected in higher creditor days in FY2023 commensurate with the falling operating profit margin. The presence of sizable debtors of largely unsecured nature also poses as a rating concern. The ratings continue to remain affected by the highly fragmented and competitive food-processing industry in Nepal. As the business remains almost entirely import-based, MHPL also remains vulnerable to any change in the Government of Nepal (GoN's) policy on general imports as well as its agriculture-related policies in addition to similar regulations of the exporting country. The business is also exposed to agro-climactic risks, which has also been factored into the rating action. Going forward, the ability of MHPL management to protect margins, manage favourable working capital financing levels and borrowing costs all the while increasing the scale would be the key rating sensitivities.

Key rating drivers

Credit strengths

Promoters' industry experience – Kedia Group, the major promoter group of MHPL, 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 food grains in Nepal, which remained a major portfolio, before their diversification into other sectors. In addition to MHPL, which deals mostly in pulses and beans, the group has multiple units involved in primary food processing related to wheat, sugarcane, diary, edible oil, etc. The resulting business synergies in purchase, distribution and recovery processes remain a positive for MHPL.

Positive demand outlook – Pulses and beans, MHPL's major product lines, are a part of Nepal's staple diet. With growing urbanisation and spending power as well as slowdown in the growth of the domestic agricultural output, the demand outlook for players like MHPL, which are involved in the import and processing of pulses, have improved over the years. Despite the slow down in the growth rate for FY2023 (5% vs 11% in FY2022), the longer-term demand outlook remains positive.

Credit challenges

Volatile margin, high leverage and supressed debt coverage indicators – MHPL's OPBDITA[1]/OI (%) remains on a declining trend since the highest level of ~9.6% reported during FY2019. The margins have remained volatile during FY2021-FY2023, partly triggered by the change in creditor arrangement which affects the cost of purchase. This renders the profitability, working capital cycle and liquidity profile of the company volatile. MHPL's financial profile remains moderate with a leveraged capitalisation profile, despite the additional equity infusion in FY2022 (~NPR 110 million). Although the bank debts remain low, the overall leverage (including creditors) remains elevated. The company's low margin also results in a supressed debt coverage ratio.

Fragmented industry and high competition – The pulse processing industry in the country consists of several organised/unorganised players. This, coupled with the low entry barrier, exposes players like MHPL to an uncertain competitive landscape. Rising competition in the industry is also partly responsible for the increasing debtor and inventory realisation period for players, contributing to the high working capital intensity for the business (although occasionally masked by high creditor days).

Supply-chain, forex and agro climactic risks – Local millers like MHPL are highly reliant on the imported food grains/pulses for their business. Therefore, any change in the import regulations related to agricultural produce, can have a direct impact on MHPL's business and cash flow. Imports by MHPL are mostly made under US dollar-denominated contracts and the company regularly uses extended credit period from suppliers. As such, MHPL may remain exposed to the risk arising from the volatility in the forex market. This is also evidenced from occasional forex losses reported by the company in its financials. Also, being a part of the agro-based industry, MHPL's revenue and profitability remain susceptible to the change in agricultural production arising from agro-climatic risks like floods, drought, pests, etc.

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

Links to applicable criteria:
Corporate Credit Rating Methodology

Link to previous rating rationale:
Rationale- Issuer Not Cooperating- Mahabir Holdings Private Limited- December 2023
Rationale- Mahabir Holdings Private Limited- May 2022

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

About the company

Mahabir Holdings Private Limited (MHPL) was incorporated in 2014 as Mahabir Aadhunik Dal Udhyog Private Limited company. The promoter group, through units such as MHPL and its sister units like Mahabir Overseas Pvt Ltd., is among the major players in the pulse processing and supply business. MHPL imports and processes pulses and beans which are then packaged and sold under the brand name Yasoda and Uttam. The company's distribution channel comprises wholesale dealers who then pass on to retail traders and finally to the consumers.

MHPL 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. As of mid-July 2023, MHPL's paid up share capital is entirely held by Mr. Ratan Lal Kedia.

Key financial indicators

	Audited				
	FY2019	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Operating Income-OI (sales in NPR million)	1,132	1,217	1,652	1,837	1,934
OPBDITA/OI (%)	9.6%	8.1%	3.5%	4.8%	3.5%
Total Debt/Tangible Net Worth (TNW; times)	6.7	3.7	8.4	1.3	0.4
Total Outside Liabilities/TNW (times)	10.7	5.7	9.0	2.6	3.4
Total Debt/OPBDITA (times)	4.6	4.3	18.8	3.8	1.6
Interest Coverage (times)	1.6	1.5	1.7	1.8	1.8
NWC[2]/OI (%)	47%	40%	70%	30%	17%
Current Ratio (times)	1.1	1.1	1.1	1.3	1.4

Source: Company data

Annexure-1: Instrument details

Instrument (Amount in NPR Million)	**Previous Rated**	**Current Rated**	**Ratings**
Long-term limits:	**-**	**275**	[ICRANP] LBB-; assigned
Fund based: Working Capital Financing	-	275	
Short-term limits:	**770**	**745**	[ICRANP] A4; reaffirmed and removed from 'Issuer Not Cooperating' category
Fund based: Overdraft/Import/TR Loan/ short term loan) *	430	445	
Non-fund based: Letter of Credit	340	300	
Total	**770**	**1,020**	

**The fund-based limits consist of embedded non-funded limits for import financing.*

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[2] *Net working capital intensity*

About ICRA Nepal Limited

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