

Mahabir Agro Product Private Limited: [ICRANP]LBB-/A4 assigned

April 1, 2024

Summary of rating action

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loan limits	1,050	[ICRANP] LBB-; assigned
Short-term loan limits	730	[ICRANP] A4; assigned
Total	1,780	

* 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 loan limits of Mahabir Agro Product Private Limited (MAPPL) and a short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits.

Rationale

The assigned rating factors in good and stable demand outlook for rice, which is the major product line for MAPPL. This coupled with the promoter's long experience in agro-based processing/trading business, the group's strong distribution network and operational synergies from other group units operating in pulses/edible oil segment, has helped in MAPPL's offtake. This is reflected in adequate revenue reported by the company in its first year of operations. The rating assigned also considers the higher installed capacity of MAPPL's processing unit, which remains a positive from future scalability and economies of scale for the company.

Nonetheless, the ratings are constrained by the company's high gearing, early stages of operations and limited track-record of MAPPL. The agro industry remains fragmented and highly competitive amid low barriers to entry. As such, the ability of the company to maintain the margins over a longer timeframe remains to be seen. Any moderation in margins reported during FY2023 in future years, could pressurize the company's debt coverage metrics given its high debt burden. Additionally, significant reliance over imported paddy for operations, makes the company's operational profile vulnerable to supplier risk and regulations regarding the import/export by the supplier country. Its revenue also remains exposed to the volatility brought about by agro-climatic risks affecting the crop production/harvest. The company's high working capital intensity resulting from relatively high inventory days, also remains a concern from liquidity standpoint.

Going forward, the ability of the company to scale up the business while controlling its working capital intensity and maintaining the margins and ensure adequate liquidity and coverage indicators will remain among key monitorable.

Key rating drivers

Credit strengths

Experienced promoters and expected synergy from other agro-based units under the Group – Mahabir Agro is promoted by the Kedia Group, an established business group with presence across diversified sectors such as manufacturing, education, healthcare, trading and financial services, among others, which remains a rating positive. Moreover, Kedia group has strong presence over the agro-based food processing including pulse processing and edible oil refinery with established supply chain and distribution network. All these are expected to provide synergy to the new rice milling unit of the group.

Positive demand outlook– The consumption of packaged and processed rice is on steady rise in Nepal amid rising consumption and relatively steady domestic production. This benefits domestic millers like MAPPL.

Credit challenges

High reliance on imported raw materials – Nepal imports paddy as the demand exceeds the domestic production. Due to sustenance-based production, fragmented farming practices and limited availability of required paddy variant, large millers like MAPPL are highly dependent on import from Indian suppliers. Therefore, any change in the import regulations can have a direct impact on MAPPL’s business and cashflow. The risk remains pronounced given the recent changes made by Indian Government in export of non-basmati rice in recent year such as levy of export duty, setting of quota on paddy export, etc.

Highly working capital-intensive nature of business– MAPPL’s business remains working capital intensive given the seasonality of the harvest. This is reflected in high working capital intensity (NWC/OI of 56% for FY2023), necessitating higher working capital debt. Although the ratio is expected to moderate in the coming years with stabilisation in the business operations, the company is expected to be inventory heavy as a norm. Given the high debt related to project capex, an elevated working capital intensity could result in higher overall debt which could suppress the debt coverage metrics. Although the company’s better operating margin in FY2023 remains a comfort, its ability to sustain the margin given the industry fragmentation remains to be seen.

Fragmented market, high competition, and product concentration risk – The rice milling industry is a highly competitive sector with multiple small and big players from the organised as well as un-organised segments. As the entry barriers for the industry is low, it renders the competitive landscape unpredictable, which could result in volatility in sales and/or margin for MAPPL. Further, the competition from importers of rice (as against paddy by players like MAPPL) also adds to the competitive pressure.

Agro-climatic risk – Being a part of the agro-based industry, MAPPL’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](#)

About the company

Promoted by Kedia group and established in 2021, Mahabir Agro Products Private Limited (MAPPL) is a new entrant in Nepalese agro-processing business. It is involved in the processing of paddy, sourced mainly from Indian markets, before selling it in the local market under the brand names Rajhans, Nepali Chulo and Good Luck. The installed capacity of the company is ~84,000 metric tonne per annum (paddy husking). The registered office and factory of the company is located at Birgunj, Parsa, Nepal.

Equity stake in MAPPL (as on Mid July 2023) is held by four shareholders viz. Mr. Mukti Kumar Agarwal (~45%), Mr. Ratan Lal Kedia (~37%), Mr. Sanjay Kumar Agarwal (~11%) and Ms. Dipti Agarwal (~8%).

Key financial indicators

Amount in NPR million	Audited
	FY2023
Operating Income-OI (sales in NPR million)	2,024
OPBDITA/OI (%)	11.6%
Total Debt/Tangible Net Worth (TNW; times)	2.7
Total Outside Liabilities/TNW (times)	3.1
Total Debt/OPBDITA (times)	6.0
Interest Coverage (times)	2.0
DSCR (times)	1.6
Net Working Capital/OI (%)	56%
Current Ratio (times)	1.6

Source: Company Data

Annexure-1: Instrument details

Instrument (Amount in NPR Million)	Rated Amount	Rating Action
Long-term-loans	1,050	
Fund based limits; Project Term Loan	580	[ICRANP]LBB-; assigned
Fund based limits; Permanent Working Capital Financing	470	
Short-term-loan limits	730	
Fund based limits- Import Loan/Trust Receipt Loan/ Short Term Loan/Cash Credit Loan*	730	[ICRANP] A4; assigned
Total	1,780.0	

*The limits are inclusive of embedded non-funded facilities like Letter of Credit & Bank Guarantees.

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