

Probiotech Industries Limited¹: Ratings downgraded to [ICRANP] LB/A4

April 09, 2024

Summary of rated instruments

Instrument* (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
Long-term loan limits	431	431	[ICRANP] LB; downgraded from [ICRANP] LBB- and removed from 'Issuer not cooperating' category
Short-term loan limits	3,910	3,910	[ICRANP] A4; reaffirmed and removed from 'Issuer not cooperating' category
Total	4,341	4,341	

* Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has downgraded the long-term loan rating of Probiotech Industries Limited (Probiotech) to [ICRANP] LB (pronounced ICRA NP L B) from [ICRANP] LBB- (pronounced ICRA NP L double B minus), while reaffirming the company's short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four). The ratings have also been removed from 'Issuer not Cooperating' category.

Rationale

The rating downgrade is mainly on account of the major moderation in the company's financial profile, characterised by the elevated gearing (total debt to tangible net worth - TD/TNW) of 6.6 times as of mid-July 2023 and stretched TD/OPBDITA metrics of ~36 times. The gearing has increased mainly because of the rising debt levels (mainly working capital debt, despite the revenue degrowth during FY2023) while the margins were under major pressure during the year, leading to sizeable losses. Muted operating profit margins (OPM of 1.2% for FY2023), increased gearing and spiked borrowing rates during the year have resulted in subpar debt service indicators (DSCR of 0.4 times for FY2023). Furthermore, the company's revenues are likely to report major degrowth during FY2024 as well (based on 8MFY2024 revenues), which would lead to conversion of major chunk of working capital loans to permanent working capital loans. Hence, the added repayment burden is likely to keep the debt service metrics under pressures over the near to medium term. Probiotech's liquidity profile also remains stretched with the high working capital intensity (net working capital to operating income ratio) of ~37% in FY2023 and generally sustained overutilisation of drawing power (~143% as of mid-July 2023). The company is also exposed to raw material price volatility, forex risks and stiff competition in the fragmented industry. Going forward, the company's ability to improve its revenue/margins, managing its working capital levels and improving its debt coverage and capitalisation indicators would remain the key rating sensitivities.

Nonetheless, the ratings factor in the company's good market position, its long track record of operations, established sales channel and experienced promoter/management team. The ratings also continue to factor in Probiotech's fairly diversified product portfolio across food and feed products (viz. animal feed, edible oil, lentil, flour, nuggets, etc).

Key rating drivers

Credit strengths

Long track record, good market presence and experienced promoters/management team – Probiotech is the first pellet feed manufacturer in Nepal, having started its operations in 2004. Its long track record, good brand recall, adequate sales channel and extensive network of dealers have been supporting its positioning in the industry. The company's revenue diversity also remains a positive (~57% revenues in FY2023 from the feed segment, rest being from the food segment).

¹ Erstwhile Probiotech Industries Private Limited.

Probiotech is a part of the Nimbus Group, which has a diversified presence across manufacturing and trading businesses among others. The experienced background of its promoters/management also remains a positive.

Credit challenges

Weak financial profile – The company’s OPM reported major pressure during FY2023 to 1.2% (from 4-5% in earlier years), on account of the sharp volatility in the international edible oil prices, while the intense competition led to challenges in passing on the same to customers. The company relied on increasing the debt levels to aid the resultant liquidity pressure (working capital borrowings increased by ~50% during FY2023, despite ~24% revenue decline). Hence, the coverage indicators remained significantly elevated with TD/OPBDITA of ~36 times and gearing of 6.6 times as of mid-July 2023 (~5 times and 3.2 times as of mid-July 2022). With low OPM, significantly high reliance on debt and spiked borrowing rates during the year, the coverage indicators remained weak with interest coverage of 0.3 times and DSCR of 0.4 times for FY2023. Given the likely continuation of revenue degrowth in FY2024 as well (~42% revenue decline in 8MFY2024 as against 8MFY2023 revenues), ICRA Nepal expects these indicators to report nominal improvements unless the gearing levels reduce significantly.

High working capital intensity and stretched liquidity – Probiotech’s working capital intensity has generally remained high over the years and stood at ~37% in FY2023. This was mainly on account of the high debtor days (~90 as of mid-July 2023), which has slightly increased (in terms of absolute amount) despite the revenue degrowth. Probiotech’s dependence on bank borrowings to finance its working capital requirements is also very high with its short-term borrowings generally exceeding its drawing power (~143% as of mid-July 2023 as against ~107% as of mid-July 2022). The company also derives sizeable revenues from group companies (~40-45% in FY2023) at slightly lower margins and offers relatively higher credit float (~55-60% debtor balance being from sister concerns), which also impacts its working capital cycle.

Intense industry competition; dependent on imports for raw materials – The feed as well as the food industry in Nepal are highly fragmented, mainly due to the low entry barriers leading to a large number of players and stiff competition from other large/established manufacturers. Hence, pricing flexibility has been impacted as capacity creation within the country is much higher than the current demand levels. Further, domestic players rely on import for most of the major raw materials. Any significant upward movement in input prices could further impact the company’s margins amid the competition, which poses challenges in passing on the price increases to the final customers.

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](#)

Link to the last rating rationale:

[Rationale Probiotech Industries Issuer not cooperating October 2023](#)

About the company

Incorporated in March 2001 as a private limited company, Probiotech Industries Limited (Probiotech) was converted to public limited status on July 15, 2021. The company is involved in the manufacturing of animal feed products, feed supplements, extraction/refining of edible oil and processing of various types of lentil/pulses, among others. The company has an installed capacity of 100,000 MT for various types of feed production, 69,500 MT for soya extraction, 49,000 MT for edible oil, 23,000 MT for flour/nuggets and 30,000 MT for lentil production. Its factory is in Birgunj-21, Lipani Birta, Jagarnathpur. Probiotech markets its products under brands like Byanjan, Shakti, Shakti Hi-Gain, Soyamax, Sunaulo Kiran, Provit and Promin.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Operating income-OI; sales (NPR million)	7,737	8,256	11,109	14,932	11,421

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
OPBDITA/OI (%)	5.4%	5.4%	4.4%	4.4%	1.2%
Total debt/Tangible net worth - TNW (times)	4.2	4.5	4.6	3.2	6.6*
Total outside liabilities/TNW (times)	5.1	5.4	5.5	5.6	8.0*
Total debt/OPBDITA (times)	7.9	8.4	8.8	5.4	35.5
Interest coverage (times)	1.4	1.4	2.4	2.1	0.3
DSCR (times)	1.0	1.0	1.7	1.4	0.4
Net working capital/OI (%)	37%	40%	36%	22%	37%
Current ratio (times)	0.9	0.9	1.0	1.0	0.9

* TNW excludes the revaluation reserves of ~NPR 526 million.

Source: Company data

Annexure-1: Instrument details

Instrument (Amounts in NPR million)	Last rated limits	Current rated limits	Rating Action
Fund-based, Long-term Loans (A)	431	431	[ICRANP] LB; downgraded from [ICRANP] LBB- and removed from 'Issuer not cooperating' category
Short-term Loan Limits (B)	3,910	3,910	[ICRANP] A4; reaffirmed and removed from 'Issuer not cooperating' category
Overdraft (OD)/ Demand Loan (DL)/ Trust Receipt (TR)/ Short-term Loan (STL)	3,140	3,140	
DL/TR/STL (within OD)	(339)	(339)	
Letter of Credit (LC)/ Bank Guarantee (BG)	770	770	
LC/BG (within funded and non-funded limits)	(1,085)	(1,085)	
Grand total (A+B)	4,341	4,341	

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About ICRA Nepal Limited

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