

## Global Agro Products Private Limited: Ratings upgraded to [ICRANP] LBBB-/A3

April 15, 2024

### Summary of rating action

Instrument* (Amount in NPR million)	Previous Rated Limit	Current Rated Limit	Rating Action
Long-term loan	88	62	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
Short-term loans	662	688	[ICRANP] A3; upgraded from [ICRANP] A4+
<b>Total</b>	<b>750</b>	<b>750</b>	

*\*Instrument details are provided in Annexure-1*

### Rating action

ICRA Nepal has upgraded the long-term rating assigned to Global Agro Products Private Limited (GAPPL/company) to [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) from [ICRANP] LBB+ (pronounced ICRA NP L double B plus) and also upgraded the short-term rating to [ICRANP] A3 (pronounced ICRA NP A three) from [ICRANP] A4+ (pronounced ICRA NP A four plus).

### Rationale

The rating action factors in GAPPL's healthy operational and financial profile characterized by steady revenue growth, consistent margins, and low gearing levels, which has resulted in comfortable coverage indicators. The company's low gearing levels are aided by its controlled working capital intensity which remains a positive from liquidity standpoint (as reflected in the company's within drawing power utilization of working capital loans). The rating continues to factor in the long traction in the industry, key promoters' experience in the related sector leading to an acquainted and established clientele, diverse sales channel, and geographic reach across the nation. The rating also takes note of the positive long-term demand outlook for the animal/poultry feed industry, given the growing investment in the sector. The recent moderation in input prices is also expected to support the company's ability to maintain its margins over the near to medium term.

Nonetheless, the rating is constrained by the volatility in raw materials' prices (primarily maize and soyabean) which could be caused by movement in global prices on account of reasons such as supply chain constraints and climactic reasons. As the raw materials are mostly imported, the forex risk also remains elevated. Volatility in input price, fragmented industry, resulting competition and limited pricing flexibility exposes the company's cashflows to similar volatility. As such, the working capital management and liquidity management remains critical.

Going forward, the sustainability of recent improvement in operational revenues over the longer term, working capital management and liquidity management to enable timely debt servicing over the near to medium term will remain among the major rating monitorable.

## Key rating drivers

### Credit strengths

**Controlled working capital intensity resulting in better liquidity** – The company has been gradually improving its working capital intensity (NWC/OI; 25% in FY22 to 21% in FY23) which is a result of controlled debtor and inventory days. This has reflected in an improved liquidity for the company as reflected in the within-drawing-power utilization of working capital loan. However, GAPPL's ability to manage its working capital on an ongoing basis will remain crucial in maintaining cashflows, leverage and profitability of the business.

**Good financial profile** – Aided by the business growth, retentions of profits, repayments of long-term loans and controlled drawing power utilisation, the company has shown a consistent decline in its debt-to-equity ratio. This has resulted in an improved financial metrics like operating margins, debt coverage ratio and current ratios. Going forward, its ability to maintain adequate revenues, protect profit margins (given fluctuating raw material prices) and manage liquidity (including future dividend decision) would remain among the key rating sensitivities.

**Experienced promoters/management** – The company has an adequate track record with experienced promoters. The traction developed by the company/promoters with the industry stakeholders remains a positive from raw material procurement, production as well as sales and distribution aspects.

### Credit challenges

**Volatility in input prices**- GAPPL's primary raw materials (viz. Maize and soyabean) are susceptible to the price volatility in accordance with the global prices. As such the input prices and margin of GAPPL is vulnerable to these volatility. However, the moderation in global prices of these commodities in recent times has helped the company's margin.

**Competitive intensity limits pricing flexibility** – There is an intense competition in the Nepalese pellet feed industry owing to the presence of many large/small players. The pellet feed industry is highly fragmented with many organised and unorganised players due to low entry barriers and complexity of business. These factors pressurise the pricing flexibility of the company. In an industry with high volatility of input prices, efficient working capital management will therefore remain a key to business sustainability and profitability.

**Inherent risk given direct linkage with poultry industry** – The business of GAPPL is directly linked to poultry industry and therefore its risk profile on the demand side is driven by the performance of poultry industry. Any major headwinds to the poultry industry such as disease outbreak, lower consumption, etc has a direct impact on feed players like GAPPL.

**Link to the previous rating rationale:**

[Rationale Global Agro Products Pvt. Ltd. March 2023](#)

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company

Incorporated on July 27, 2012, Global Agro Product Private Limited (GAPPL) is a pellet and mash feed manufacturing unit for poultry and other livestock. The total production capacity of the plant is 20MT per hour for pellet unit and 5MT per hour for mash feed. The company's products are sold under the brand name of "Global", "Amrit" and "Unnat".

The company is promoted by a group of individual shareholders with top seven individuals controlling ~57% stake in the company. Major shareholders include Mr. Basanta Poudel (11%), Mr. Kamal Bahadur Poudel (9%), Mr. Lok Bahadur Rai (9%), Mr. Umesh Chandra Sapkota (9%) and Mr. Bal Chandra Khanal (8%). Major shareholders have prior experience in the related feed industry. The factory plant is situated at Bharatpur, Chitwan, Bagmati province, Nepal.

## Key financial indicators

	Audited	Audited	Audited	Provisional
Amount in NPR million	FY2021	FY2022	FY2023	6MFY2024
Operating Income (OI)	2,561	2,440	2,823	1,650
OPBDITA*/OI (%)	6.8%	6.0%	7.7%	7.3%
Total debt/Tangible net worth (TNW; times)	1.78	2.02	1.46	1.20
Total Outside liability/TNW (times)	2.71	3.38	2.83	2.22
Total Debt/OPBDITA (times)	3.12	4.38	2.47	2.14
Interest coverage (times)	5.90	2.86	2.81	3.68
DSCR (times)	2.79	1.88	2.10	2.29
Net-working capital/OI (%)	23%	25%	21%	17%
Current Ratio (times)	1.18	1.03	1.09	1.14

\*Operating profit before depreciation, interest, taxes, and amortization

## Annexure-1: instrument details

Instruments (limit in NPR million)	Previous rated limit	Current Rated Limit	Rating Action
<b>Long-term loan limits (A)</b>	<b>88</b>	<b>62</b>	
Fund-base; term loan	88	62	[ICRANP] LBBB-; upgraded from [ICRANP] LBB+
<b>Short-term loan limit (B)</b>	<b>662</b>	<b>688</b>	
Fund-based; overdraft & demand loan	235	235	[ICRANP] A3; upgraded from [ICRANP] A4+
Non- fund based; letter of credit (LC)*	427	453	
<b>Total Loans (A+B)</b>	<b>750</b>	<b>750</b>	

\* Includes fund-based trust receipt/demand loan

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## About ICRA Nepal Limited

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