Kisan Feed Mill Private Limited: [ICRANP] LB+/A4 assigned

April 29, 2024

Summary of rating action:

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loan limits	204.0	[ICRANP] LB+; assigned
Short-term loan limits	600.3	[ICRANP] A4; assigned
Proposed loan limits (unallocated)	145.7	[ICRANP] LB+/A4; assigned
Total	**950.0**	

* *Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to Kisan Feed Mill Private Limited's (KFMPL) long-term loans and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term loan limits.

Rationale

The assigned ratings are mainly constrained by KFMPL's limited operational track record (since H2 FY2022) resulting in relatively low scale of operations (despite the growth so far) in relation to the debt levels, thus accentuating the stabilisation risks. Given this backdrop, the company's high fixed costs have resulted in negative net profitability despite a decent operating profit margin (OPM of 8.5% in FY2023). The ratings also remain impacted by KFMPL's weak financial profile characterised by high gearing, moderate coverage ratios and borderline debt servicing metrics. Further, the company's liquidity profile remains stretched with an elongated working capital cycle and overutilisation of drawing power. The ratings are also constrained by the volatility in raw materials' prices (primarily maize and soyabean) on account of any supply-chain constraint and/or climatic reason. This, coupled with cyclicality in the poultry industry, disease outbreaks (bird flu), etc., can also impact the company's revenue/margins. Similarly, high competition on account of fragmented industry and, hence, limited pricing flexibility exposes the company's cash flows/margins to volatility. As the raw materials are mostly imported, the forex risk also remains elevated for KFMPL.

Nonetheless, the ratings factor in the good scale-up in revenues in the initial years of operations (albeit on a low base), which is partly aided by the group support[1]. Similarly, the ongoing business integrations[2] are also expected to result in operational synergies and improve the business dynamics, which however remains to be seen. Going forward, the company's ability to scale-up the business while ensuring adequate margins and improve the working capital cycle with comfortable coverage indicators would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Group support aiding business – Despite being operational since H2 FY2022, KFMPL has been able to report a good scale-up in revenues with ~316% revenue growth during FY2023 and ~47% (annualised) growth during 9M FY2024 (albeit on a

[1] *RAZA Group Private Limited, a related unit operating broiler farm and cattle farm, accounted for ~10% revenues of KFMPL for FY2023.*
[2] *Plans to add on a hatchery unit and soyabean extruder in near future.*

low base). The company's revenues were partly aided by the group support (~10% revenues from Group entities). This, along with the ongoing business integration (a hatchery unit and soybean extruder machine planned to be added in future), are expected to result in operational synergies.

Credit challenges

Limited traction and volatile margins – KFMPL has a limited track record of business operation (since February 2022) due to which it is yet to stabilise its operations and mitigate the associated risks. The overall capacity utilisation of the plant is on a lower side at ~20% for FY2023. Despite reporting a decent revenue growth during 9M FY2024, KFMPL reported a major drop in OPM to 6.2% against 8.5% for FY2023, mainly on account of margin pressure amid competition. Hence, its ability to scale-up the revenue, sustain the business growth and ensure adequate margins over a longer period, remains to be seen.

Weak financial and liquidity profiles – With the business still in its initial phases and yet to achieve stabilisation, the company is reeling to meet its high fixed costs which have resulted in negative net profitability despite a positive OPM. This has resulted in accumulated losses in the books (albeit improving), which have deteriorated the company's financial profile as reflected in gearing of ~3 times and total debt to OPBDITA of ~10 times as of mid-April 2024, while the DSCR remained borderline at 1.01 times for 9M FY2024. To manage the liquidity stress, the company has been utilising short-term loans in excess of its drawing power limits (~106% as of mid-April 2024), which also remains a concern. The company's working capital intensity (net working capital to operating income ratio) is also high (albeit improving) at 36% for 9M FY2024, mainly on account of the high debtor days at 119. Going forward, improvement in financial and liquidity profiles will remain a key monitorable.

High competitive intensity and volatility in input prices – There is an intense competition in the Nepalese pellet feed industry owing to the presence of many large/small-scale players and established brands, amid the low entry barriers and low complexity of business. These factors pressurise the company's pricing flexibility. Similarly, KFMPL'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 margins of KFMPL will remain vulnerable to the same. In an industry with high volatility of input prices, efficient working capital management will therefore, remain a key to business sustainability and profitablity.

Inherent poultry sector risks – The business of KFMPL is directly linked to the poultry industry and therefore its risk profile on the demand side is driven by the perforance of the poultry industry. Any major headwind to the poultry industry such as disease outbreak, lower consumption, etc., would have a direct impact on feed manufacturing players like KFMPL.

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

Incorporated in August 2020, Kisan Feed Mills Private Limited (KFMPL) has been manufacturing poultry/cattle/fish feed products and feed supplements since February 2022. The company has an annual installed capacity of 56,160 metric tonnes, while the utilisation for FY2023 was ~20%. As of mid-April 2024, KFMPL had a paid-up capital of NPR 180 million (net worth of 176 million), which was held by a group of six individual shareholders (Mr. Mohd Mukhtar Ahmad Rai, and his family members).

Key financial indicators

	Audited 6MFY2022	Audited FY2023	Provisional 9MFY2024
Operating Income (OI; revenues in NPR Million)	382	796	877
OPBDITA*/OI (%)	5.6%	8.5%	6.2%
Total debt/Tangible net worth (TNW; times)	3.97	3.68	3.07
Total outsider liabilities/TNW (times)	4.46	4.09	3.63
Total Debt/OPBDITA (times)	20.95	7.53	7.49
Interest coverage (times)	1.04	1.35	1.28
DSCR (times)	0.83	0.98	1.01
Net-working capital/OI (%)	64%	45%	36%
Current Ratio (times)	1.08	1.20	1.12

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

Annexure-1: instrument details

Instruments	Rated Amount (NPR Million)	Rating Action
Long-term loan limits (A)	**204.0**	
Fund-base; term loan	204.0	[ICRANP] LB+; assigned
Short-term loan limits (B)	**600.3**	
Fund-based; Trust Receipt	400.0	[ICRANP] A4; assigned
Fund-based; Cash Credit	100.0	
Non- fund based: Bank Guarantee	0.3	
Non- fund based; Letter of Credit (LC)	100.0	
Proposed limits (unallocated) (C)	**145.7**	[ICRANP] LB+/A4; assigned
Total loan limits (A+B+C)	**950.0**	

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About ICRA Nepal Limited

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Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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