

Rating Rationale
Global Trading Concern Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	225.46	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	970.30	CARE-NP A3 [A Three]	Assigned
Total Facilities	1,195.76		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the long term bank facilities and ‘CARE-NP A3’ to the short term bank facilities of Global Trading Concern Private Limited (GTCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GTCPL derives strength from long track record of operation along with established and diversified dealer network, authorised distributorship of different types and brands of liquor for Nepal including strong global brands as major portfolio and liquidity profile supported by liquid investments in listed shares. The ratings also factor in strong promoters and experienced management team in related field and increasing demand of liquor products in Nepal. The ratings are, however, constrained by deteriorated financial performance during FY18, leveraged capital structure although moderate debt service coverage indicators and working capital intensive nature of operations exposed to volatile interest rates. The rating also factors in exposure to liquor related government policies, foreign exchange fluctuation risk and competition from other domestic as well as international liquor brands.

Ability to profitably scale up the operations and effective management of working capital with improvement in solvency position and ability to sustain various government policies related to liquor remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strong promoters and experienced management team in related field

GTCPL derives strength from its strong promoter group belonging to Vishal Group of Companies. Vishal Group is one of the largest business group of Nepal involved in diversified business of trading, banking, insurance, manufacturing and others. The company is managed under the overall guidance of the company’s board of directors who possess wide experience in various industries and trading business. Mr. Ashish Kumar Agrawal is Director in GTCPL from last 10 years and Mr. Vishal Agrawal, Director of GTCPL, is also the Director of Vishal Group since 2000. Mr. Anil Kumar Agrawal, is the CEO of GTCPL since 20 years and heads the day to day operation of the company along with the support from experienced management team.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Authorised exclusive distributor of different types and brand of liquor for Nepal including strong global brands as major portfolio

GTCPL is an authorized distributor of assorted spirits (which include Whiskey, Vodka, Rum, Gin, brandy and Tequila) of Diageo Plc of UK. The company is also distributor for wine and Beer from different countries. GTCPL has entered into contract with Diageo plc. and its associate companies as an exclusive distributor of Diageo in Nepal. Diageo Plc. has been the supplier of GTCPL since 1998. Company's major sales consist of assorted spirits of Diageo Plc, a British Multinational alcoholic beverage company that owns two of the world's largest premium spirit brand namely Johnnie Walker Whiskey and Smirnoff Vodka. In FY2018, around 75% of sales of GTCL comprised of spirits from Diageo.

Long track record of operation along with established and diversified dealer network

GTCPL started operations from November 1998 as an authorized distributor of assorted spirits of various global brands in Nepal. GTCPL is one of the largest distributor of imported alcohol in Nepal with 36 no. of exclusive sub-dealers in FY18.

Liquidity profile supported by liquid investments in listed shares

GTCPL had an investment portfolio of Rs.118 Mn at the end of FY18 and most of the investments are in shares of different listed banks, financial institutions and insurance companies which are readily marketable in nature to support the liquidity profile of the company. As on July 16, 2018, GTCPL had an investment of Rs. 87 Mn in shares of listed companies and Rs. 31 Mn in shares of unlisted companies. As on May 23, 2019, GTCPL had liquid investment of Rs. 279 Mn based on the market price of securities traded on Nepal Stock Exchange Limited (NEPSE).

Increasing demand of liquor products in Nepal

During FY16, the total value of imported liquor (including taxes) was ~ Rs. 2.65 Bn which grew at a CAGR of ~ 16% to Rs. 3.55 Bn in FY18. During 10 months ended FY19, the total value of imported liquor is at Rs. 3.12 Bn. This growth in liquor is on account of rise in household income, (which mainly comes from increasing remittance inflows) and changing perception of people regarding alcohol consumption in the society. However, the growth is limited on account of presence of domestic alcohol industry which also contributes substantially to the alcohol market in Nepal and the customer base for the company's product is limited and catering to the niche segment.

Key Rating Weaknesses

Deteriorated financial performance during FY18

Revenue of the company is through sale of liquor which consists of assorted spirits, wine and beer. During FY18, the revenue of the company declined marginally by 0.04% in FY18 as compared to growth of 30.27% in FY17 from FY16. The PBILDT of GTCPL has been volatile over the period due to trading nature of business. Net profit of the company declined substantially by 40% to Rs 39 Mn during FY18 from Rs 64 Mn during FY17 on

account of decline in PBILDT and increase in interest expenses. During 9MFY19, GTCPL has achieved net sales of Rs. 1,525 Mn.

Leveraged capital structure however moderate debt service coverage indicators

Debt equity ratio of GTCPL was low at the end of FY18 at 0.68x, however, the overall gearing ratio of the company was high at 2.54x at the end of FY18 (3.17x at the end of FY17). Total Debt/GCA was high at 16.90x in FY18 which increased from 10.71x in FY17. The interest coverage ratio of the company declined to 2.02x in FY18 from 2.90x in FY17 on account of increase in debt amount and interest rates.

Working capital intensive nature of operations and exposure to volatile interest rates

Operations of GTCPL are working capital intensive in nature due to the business requirement to maintain inventory as the supply is totally dependent upon imports. GTCPL's average inventory holding period remains ~2 to 3 months, average collection period remains ~ 1.5 to 2 months and average creditors period is low at 20 days. This makes operating cycle of ~3 to 4 months leading to high reliance on bank finance for the working capital needs. Further, Nepalese banking sector fix interest rates on lending based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 1-2 years. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate

Exposure to government policies related to liquors

Nepal government has stringent restrictions and policies relating to liquor production, import, sales and distribution to regulate alcohol products. Excise duty on beer, wines and spirits has been increasing over the period along with legally binding regulation on alcohol advertising and product placement. In addition to this there is restriction to use alcohols on government sponsored programs and events. A new customs rule that went into effect following the fiscal budget in May 2018, allows a single passenger no more than one litre of the alcoholic beverage. With increase in the vigilance at the airport and import of alcohol more than the prescribed limit of 1 liter getting confiscated at the airport is expected to improve the business of imported liquor for the players like GTCPL.

Foreign exchange fluctuation risk

GTCPL imports liquor from various countries and distributes them in Nepal through dealers and key accounts. Payment to foreign suppliers is made in USD and hedging for the same is not exercised which exposes GTCPL to foreign currency fluctuation risk. During FY18, the company suffered Rs 5 Mn loss from (Rs 4 Mn gain in FY17) fluctuation in foreign currency exchange rate.

Competition from other brand of liquor

GTCPL's revenue mainly comes from sales of imported assorted spirit which mainly include premium whiskey of Johnnie Walker and vodka of Smirnoff. The price of Johnnie Walker whiskey is high thus only affordable by upper middle class and above consumers. GTCPL is exposed to competition from different local players who

manufacture similar products domestically for both Whisky and Beer at lower price. Further, there is competition from other imported liquor brands in Nepal.

About the Company

Global Trading Concern Private Limited (GTCPL) is a private company, incorporated on November 30, 1998. It is an authorized exclusive distributor of Assorted Spirits (which include Whiskey, Vodka, Rum, Gin, brandy and Tequila) of Diageo Plc United Kingdom (UK) and its associate companies. The company is also distributor for wine from different countries, Beer of Heineken International and Bira91 of India for Nepal. It imports liquor products from various countries and distribute to dealers and key accounts all around Nepal.

Brief Financial Performance during the last 3 years is as follows:

(Rs. In Million)

For the year ended Mid July,	FY16 (A)	FY17 (A)	FY18 (A)
Income from Operations	1,380	1,798	1,798
PBILDT	77	112	106
PAT	43	64	39
Overall Gearing (times)	3.22	3.17	2.54
Interest coverage (times)	3.43	2.90	2.02

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	225.46	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	700.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit/Bank Guarantee	270.30	CARE-NP A3
Total		1,195.76	