

**Rating Rationale**  
**Life Care Distributors Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	267.25	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	1,150.00	CARE-NP A4+ [A Four Plus]	Assigned
Short Term Bank Facilities (Proposed)	32.75	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>1,450.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB+’ to the long term bank facilities and ‘CARE-NP A4+’ to the short term bank facilities of Life Care Distributors Private Limited (LCD).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of LCD are constrained by working capital intensive nature of operations and high utilization of working capital limits, leveraged capital structure with moderate debt coverage indicators, exposure to volatile interest rates and foreign exchange fluctuation risk. The ratings also factors presence in fragmented industry with competition from both national and international players. The ratings, however, derives strength from established and moderate track record of operations along with resourceful promoters and experienced management team in the related field, increasing scale of operations and profitability over the period, liquidity profile supported by liquid investments in listed shares and diversified distribution network and established brands. Ability to profitably scale up the operations of the company and effective management of working capital with improvement in solvency position will remain the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Working capital intensive nature of operations and high utilization of working capital limits***

The operations of the company are working capital intensive in nature. The company imports its products from foreign countries and stores and sells in the domestic market. The collection period of the company remains around 2 months and the average inventory period also remains around 2 months as it has to maintain sufficient inventory in order to cater to the needs of the customers. This leads to an overall operating cycle of the company of around 3-3.5 months

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

leading to high reliance of the company on bank finance for the working capital needs. The month end working capital utilization against the drawing power of the company for last 12 months ending May 14, 2019 was 90%.

***Leveraged capital structure with moderate debt coverage indicators***

LCD availed Rs.285 Mn term loans to purchase land located at Thimi, Kathmandu during FY18 (refers to 12 months' period ended July 16, 2018) in order to construct warehouse. The overall gearing ratio of the company was moderately high at 2.58x at the end of FY18 which was improved from 2.88x at the end of FY17 mainly due to accretion of the profits to the Networth and equity infusion by promoters in the form of share capital. The interest coverage ratio of the company declined to 1.81x during FY18 (FY17: 2.12x) on back of increase in the interest cost due to increase in the loans coupled with increase in interest rates. Also, term debt to GCA ratio and total debt to GCA ratio was high at 8.22x and 22.68x respectively during FY18. Debt equity and overall gearing ratio had been deteriorated to 1.14x and 2.62x respectively at the end of 9MFY19 (provisional, refers to 9 months period ended mid-April 2019) as LCD availed unsecured loans from its associate companies to support the operations of the company.

***Exposure to volatile interest rates***

Nepalese banking sector fixes 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 12 months. Therefore, the funding from banks and financial institutions is subject to volatile interest rate.

***Foreign exchange fluctuation risk***

Around ~25% of the purchases by the company were invoiced in foreign convertible currency during FY18, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. LCD has not taken any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees. The ability of the company to manage the foreign exchange fluctuation risks related to imports of traded items will be the key rating sensitivity.

***Fragmented industry with competition from both domestic and international players***

The company is in import/ trading of FMCG from various countries and sell in domestic market. LCD operates in the fragmented industry, as the company has to compete with local players as well as other international players who are into the business of importing similar products and selling domestically.

**Key Rating Strengths*****Established and moderate track record of operations along with resourceful promoters and experienced management team in the related field***

LCD has an operational track record of more than 7 years in import/ trading of FMCG in Nepal. The promoters of LCD have an experience of over two decades in the same line of business. LCD is managed under the overall guidance of its two member Board of Directors (BoD). Mrs. Jamuna Agrawal is the Chairman of LCD and has more than 2 decades of experience in FMCG business. Mr. Saurav Garg is the managing director of LCD and has more than a decade of experience in FMCG business. The Board is supported by a team of qualified and experienced professionals to run the day-to-day operations of LCD. Shareholders of the company have infused equity share capital of Rs.78 Mn during FY18 and Rs.4.95 Mn during 9MFY19.

***Increasing scale of operations and profitability over the periods***

The total operational income of the company increased by ~11% to Rs.1688 Mn during FY17 over FY16 and the same has further increased by ~15% to Rs.1939 Mn during FY18. The increase in the scale of operations of the company over the period was mainly due to increased sales realizations of the items traded, addition of new product line and continuous increasing customer base. Owing to increase in total operational income, PBILDT of LCD has also increased by ~11% to Rs.102 Mn in FY18. However decline in other operational income by ~83% during FY18 as compared to FY17, leads to slight decline in PBILDT margin to 5.28% during FY18 (FY17: 5.48%). Though the PBILDT has increased by ~11% during FY18, PAT reported low growth due to high increase in the interest expenses backed by increase in the term loans during FY18. Further, LCD achieved operational income of Rs.1476 Mn and PBILDT of Rs.76 Mn during 9MFY19.

***Liquidity profile supported by liquid investments in listed shares***

LCD had an investment portfolio of around Rs.147 Mn during FY18. Most of the investments are in securities of different listed banks and financial institutions, insurance companies etc. which are readily marketable in nature lends sufficient liquidity cushion to the company.

***Diversified distribution network and established brands***

Currently LCD operates its business from Kathmandu valley with four warehouses of around 30,800 sq. ft. and are located at major locations of Kathmandu Valley. LCD has countrywide presence with more than 100 direct regional distributors covering close to 17000 outlets all over Nepal. LCD is involved in import and trading of major FMCG Brands i.e. Cadbury, Bournville,

Rich Cocoa, Bournvita, Oreo, Chips Ahoy, Ritz, Tang, Toblerone, Orion Choco Pie, Classic, Kodak, Axe, Dove, Rexona etc. , which have strong brand recognition.

### About the Company

Life Care Distributors Private Limited (LCD) was registered as a private limited company on June 2011. LCD principally involves in import/ trading of FMCGs. Currently LCD is involved in supplying more than 110 varieties of products manufactured by 6 FMCG companies around the globe under more than 17 brands. For most of the products, the company is sole distributor in Nepal.

### Brief Financial Performance during last 3 years:

(Rs. In Million)

For the year ended Mid July,	FY16 (A)	FY17 (A)	FY18 (A)
Income from Operations	1,515	1,688	1,939
PBILDT	86	92	102
PAT	36	39	40
Overall Gearing (times)	4.03	2.88	2.58
Interest coverage (times)	2.73	2.12	1.81

#### Analyst Contact

Mr. Giri Raj Kandel  
[giriraj.kandel@careratingsnepal.com](mailto:giriraj.kandel@careratingsnepal.com)  
 Tel No.: +977-01-4445473

#### Relationship Contact

Mr. Sajan Goyal  
[sajan.goyal@careratingsnepal.com](mailto:sajan.goyal@careratingsnepal.com)  
 Tel No.: 9818832909/+977-01-4445472/3/4

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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	267.25	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	788.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Working Capital Loan	32.75	CARE-NP A4+
Short Term Bank Facilities	Letter of Credit/ Bank Guarantee/ Customer Acceptances	362.00	CARE-NP A4+
<b>Total</b>		<b>1450.00</b>	