

Rating Rationale
Dabur Nepal Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	6,100.00	CARE-NP A1+ [A One Plus]	Assigned
Short Term Bank Facilities (Proposed)	500.00	CARE-NP A1+ [A One Plus]	Assigned
Total Facilities	6,600.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP A1+’ to the short term bank facilities of Dabur Nepal Private Limited (DNPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of DNPL derives strength from its established track record with strong brand equity with wide range of products in Nepal, strong distribution network and experienced Directors/ Management in the related field. The rating factors in strong financial profile characterized by healthy profitability, comfortable debt coverage indicators and high unutilized working capital limits. The rating also derives comfort from the strength and expertise derived from strong ultimate holding company Dabur India Limited. These strengths are partially offset by concentrated business on foods segment, exposure to the volatility in the raw material prices and volatile interest rates, fragmented industry with competition from both domestic and international players and exposure to regulatory risk. Ability of the company to maintain the profitability and scale up its operations and the impact of future capital expenditure plans on the capital structure of the company remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strength and expertise derived from strong ultimate holding company Dabur India Limited

The holding company of DNPL is Dabur International Limited which holds 97.50% shares in DNPL. Dabur International is a wholly owned subsidiary of Dabur India Limited (DIL). DIL, ultimate holding company of DNPL, is one of India’s leading fast-moving consumer goods (FMCG) manufacturers with revenues of over INR 63 Bn (during FY19, refers to the 12 months period ended March 31, 2019). Building on a legacy of quality and experience of over 135 years, DIL is world's leader in Ayurveda products with a portfolio of over 250 Herbal/ Ayurvedic products. DIL's FMCG portfolio includes five flagship brands with distinct brand identities -- Dabur as the master brand for natural healthcare products, Vatika for premium personal care, Hajmola for digestives, Réal for fruit juices/ beverages and Fem for fairness bleaches and skin care products. DIL's products also have large presence in the overseas markets and are available in over 100 countries across the globe. DIL owns research and development (R&D) center for extensive research and development to create

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

products and solutions for sustaining DIL's and its group company's competitive advantage. Being a part of Dabur group, apart from benefits of DIL's extensive R&D, DNPL follows same policies and standard operating procedures (SOPs) which are made at group level.

Established track record with a strong distribution network

DNPL has been in the business of FMCG products manufacturing in Nepal for 27 years. As one of the leading FMCG Companies in Nepal, DNPL has strong distribution network with more than 300 distributors catering to 1 lakh retail points across Nepal. An efficient supply chain management system, and prudent working capital management enables healthy operating efficiency.

Experienced Directors/ Management in the related field

DNPL is a professionally managed company under the overall guidance of its Board of Directors (BoD). Mr. Rukma Shamsher Rana is the Chairman and Managing Director of the company. Mr. Rana has been director of DNPL since its establishment. He was Member of Parliament; Ambassador of Nepal to India and President of Nepal Olympic Committee. Mr. Harkirat Singh Bedi, director, looks after overall business operations of Nepal and has more than 18 years of experience in the field of sales and marketing within Dabur group. BoD of DNPL is supported by experienced management team.

Strong financial profile characterized by healthy profitability and comfortable debt coverage indicators

The company had a modest growth in revenue from operations of 2.47% during FY19 (Unaudited, refers to 12 months period ended mid-July 2019.) over FY18. The increase in the scale of operations of the company was mainly due to increased sales realizations of the manufactured products, addition of new product line and continuous increase in customer base. However, DNPL experienced slight decline in PBILDT by 1.25% to Rs.1,405 Mn with healthy PBILDT margin of 13.70x during FY19 against Rs.1,422 Mn with PBILDT margin of 14.21x during FY18. Decline in the PBILDT and increase in depreciation charge resulted moderation in net profit to Rs.732 Mn in FY19 (prov.) as against Rs.766 Million in the previous year. DNPL has not availed any long term debt from any bank/ financial institutions and overall gearing ratio of the company was low at 0.32 times as on July 16, 2019 with sizeable unutilized short term bank loan limits. DNPL has comfortable debt service coverage indicators as interest coverage ratio and total debt to GCA stood at 12.58x and 1.59x as on July 16, 2019 respectively.

Strong brand equity with wide range of products

DNPL deals with brands such as Dabur, Real, Hajmola etc. which have strong brand recognition both locally and internationally. The brand Dabur has a very strong reputation, particularly in ayurvedic and herbal segment. These strengths have also helped DNPL in maintaining its market position despite competition from large international and domestic players. DNPL is manufacturing juice under brand name Real in about 40 variants in real, active and burst ranges. Home & Personal Care segment which includes brand like Vatika has strong brand presence for premium personal care products. Similarly, Health care segment of Dabur includes brands like Hajmola with strong brand recognition for digestives products in candy and tablets variants. These brands are household names and are preferred brands in their categories.

Major exporter of the country

DNPL is one of the contributors towards foreign trade of Nepal as one of the major exporters. DNPL exported goods worth Rs.6,334 Mn during FY19 which constitutes 6.52% of total exports of Nepal and generated 56.14% of its gross revenue from exports during FY19. Considering the export business and volume of DNPL, it was awarded by numerous awards in the past like best taxpayer in the export business, commercially important person etc. by different government bodies.

Key Rating Weaknesses***Concentrated business on foods segment***

Business of DNPL is concentrated on foods segments which has been contributing around 70% to the revenue over the years. Although the company is also in other FMCG products, like personal care, health care, digestives etc., the contribution is moderate in the total revenue of the company. Further, revenue of DNPL is concentrated on single customer i.e. DIL. DNPL exports its products, mainly juice and digestives products, to DIL. During FY18, DNPL generated 57.51% of its gross sale revenue from export sales to DIL, which accounts 99.69% of total export sales of DNPL.

Volatility in the raw material cost

The major raw materials of the company for the production of juices are pulp, concentrates and sugar. The prices of concentrates and pulp are highly volatile in nature and depends on availability of crops posing seasonality factor. Though, DNPL is procuring raw materials strategically depending on availability of crops to safeguard against the inflationary prices, due to perishable nature of raw materials stocking period is very low. Further, GoN policies like ban on imports of sugar also impacted the raw material cost requiring DNPL to procure its sugar requirement locally at higher prices. The ability of the company to pass on the changes in raw material prices to the finished products without impacting the profitability of the company will be the key rating sensitivities.

Fragmented industry with competition from both domestic and international players

FMCG industry has organized and unorganized players across segments. DNPL 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 manufacturing similar products and selling domestically. Similarly, the traders involved in the import/ trading of various global brands are the major competitors of DNPL in most of its segments.

Exposure to regulatory risk

GoN has formed and implemented different regulations and standards related to the safety of food in Nepal in order to protect health of public. Further, changes in policies, like ban in import of sugar by GoN have direct impact on the profitability of the company. However, GoN decision to ban import of energy drinks and flavoured synthetic drinks may help domestic foods business of DNPL for flavoured synthetic drinks segments. Ability to manage the impact of any regulatory changes by GoN would be the key rating sensitivities.

About the Company

Dabur Nepal Private Limited (DNPL) is a private limited company, established in 1989 and commenced its business operations since 1992. It is a step down subsidiary of Dabur India Limited (DIL), one of the leading Multi-National Company of India. DNPL is one of the leading manufacturers and exporter of the country and markets wide range of consumer goods like Fruit Juices/ Beverages, Chyawanprash, Glucose, Tooth Paste, Hair Oil, Digestive Tablets (Hajmola), Honey etc.

Brief Financial Performance during last 3 years:

(Rs. In Million)

For the year ended Mid July,	FY17 (A)	FY18 (A)	FY19 (UA)
Income from Operations	9,937	10,010	10,253
PBILDT	1,339	1,422	1,405
PAT	689	766	732
Overall Gearing (times)	0.56	0.32	0.32
Interest coverage (times)	10.15	12.35	12.58

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Working Capital Loans	5,600.00	CARE-NP A1+
Short Term Bank Facilities (Proposed)	Working Capital Loans	500.00	CARE-NP A1+
Short Term Bank Facilities	Letter of credit/ Bank guarantee	500.00	CARE-NP A1+
Total		6,600.00	