

**Rating Rationale
A.S.T. Private Limited**

Rating

Facility	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	33.13	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	667.50	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	700.63 (Increased from Rs.698.06 Mn)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long-term bank facilities and ‘CARE-NP A4’ assigned to the short-term bank facilities of A.S.T. Private Limited (AST).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AST are constrained by impact of COVID-19 on the business of the company, working capital intensive nature of its operations leading to high utilization of working capital limits, exposure to volatile interest rates, price volatility risk on traded commodities and exposure to foreign exchange fluctuation risk. The ratings also factor in fragmented industry with competition from both national and international players. The ratings, however, derive strength from moderate track record and experienced promoters in the related field, improvement in profitability of the company despite decline in revenue during FY19 (audited, refers to 12 months period ended mid-July 2019), moderate debt service coverage indicators and diversified distribution network with locational advantage. Ability to profitably scale up the operations of the company, effective management of working capital with improvement in solvency position are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Impact of COVID-19 on the business of the company

With outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, Government of Nepal (GoN) has imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down the economic activities. Further, the lockdown has been extended multiple times with current extension till June 14, 2020. However, GoN has provided relaxation in operation of companies dealing in essential items. Considering the same, AST has been running its operations partially which has impacted the revenue of the company. With lockdown imposed in most of the countries, shipment of imported raw material has also been impacted during the period which may impact operations of the company in the near future. The company currently has stock of trading goods

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

for around 3 months which may reduce the impact to certain extent. While AST's performance in 9MFY20 (provisional, refers to 9 months period ended mid-April 2020) was comfortable, the revenue growth momentum, profitability and debt coverage indicators are expected to be under pressure. The company's ability to achieve sales and profitability as envisaged and maintain its debt coverage indicators would remain critical.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. AST imports its products from foreign countries and stores and sells in the domestic market. The collection period of the company remains at a level of around 4 months. The average inventory period of the company remains at around 3 months. Further, credit period allowed to the company during FY19 was at 63 days. This leads to an overall operating cycle of around 4-5 months leading to high reliance of the company on bank finance for the working capital needs. The average monthly outstanding of fund-based working capital limit against drawing power was around 98.26% during last 12 months period ended mid-April 2020.

Exposure to volatile interest rates

Nepalese banking sectors fixes lending interest rate based on quarterly base rate and interest rate can be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and financial institutions is subject to volatile interest rate.

Price volatility risk on traded commodities and foreign exchange fluctuation risk

AST imported around 96% of the items it trades from India and other third countries during FY19. Any sharp adverse movement in price without any corresponding movement in the traded goods price is expected to impact the profitability of the company especially in light of its inventory holding period of around three months. Further, substantial quantum of the items traded by AST is invoiced in USD during import, for which the company is exposed to the foreign exchange fluctuation risk. The ability of the company to pass through changes in prices to the traded products and managing the foreign exchange fluctuation risks related to imports of traded items will be the key rating sensitivities.

Fragmented industry with competition from both domestic and international players

The company is in import and trading of chemicals and industrial raw materials from various countries and sells in the domestic market. AST operates in the fragmented industry, as the company has to compete with local players as well as other international players who are into the similar business of importing products from foreign countries and selling domestically.

Key Rating Strength

Moderate track record and experienced promoters in the related field

AST was registered as private limited company in 2011 for various trading activities which was previously operating as proprietorship firm with name Allied Shruti Traders since 2005. The Board of

Directors (BoD) of the company possesses wide experience in the field of trading. Mr. Sumit Kumar Jhunjhunwala is the Chairman and Managing Director of the Company. He has been involved in the trading business since inception of AST and looks after day to day operations of the company. The promoters of the company have also been infusing funds in the form of equity share capital to support company operations. The equity share capital of the company has increased from Rs. 107.40 Mn at the end of FY19 to Rs. 137.40 Mn as on September 4, 2019.

Improvement in profitability of the company despite decline in revenue during FY19

The total income of the company reduced by ~3% to Rs. 1,218 Mn during FY19 majorly due to decline in sales of optical fiber cable and equipment which contributed ~14% to the total sales of the company during FY18. However, this decline was partially offset by growth in total quantity sold of other products of the company. Despite decline in revenue of the company, PBILDT increased to Rs. 97 Mn with PBILDT margin of 7.99 % in FY19. With improvement in PBILDT and no major change in depreciation, PAT of the company increased to Rs. 28 Mn with PAT margin of 2.27% in FY19.

Moderate debt service coverage indicators

Debt-equity of the company was low at 0.18x at the end of FY19 which increased from 0.07x at the end of FY18 due to increase in term loan during FY19 to fund the construction of office building. Total gearing ratio deteriorated to 2.44x at the end of FY19 from 2.33x at the end of FY18 due to increase in working capital loans. This was however partially offset by increase in networth of the company on back of accretion of profit to the networth and infusion of share application money amounting to Rs. 9 Mn. AST had moderate interest coverage ratio of 1.98x during FY19 with high total Debt/GCA at 14.11x at the end of FY19.

Diversified distribution network with locational advantage

Currently AST operates its business through four branches around the territory of Nepal with head office at Birgunj. Three of older branches are located at major industrial cities of Nepal i.e. Kathmandu, Butwal, and Biratnagar. AST commenced a new branch at Itahari during FY20 for dealing in fiber cables and equipment. Branches at Butwal, Biratnagar and head office at Birgunj are located nearby Indian Border from where AST has been getting locational benefit for the import of trading items. Further, the company has diverse customer base with top 10 customer contributing 29% of the total sales during FY19.

About the Company

A.S.T. Private Limited (AST) was registered as a private limited company on December 23, 2011, which was earlier registered as a proprietorship firm and operated since November 30, 2005 in the name of Allied Shruti Traders. The company is promoted by individual businessmen of Nepal with registered office situated in Birgunj, Parsa. AST is involved in import and trading of chemicals and industrial raw materials from various countries for end-user industries such as bakery & confectionary, snacks & noodles, juices & beverages, dairy, paints & textiles etc.

Brief Financial Performance during last 3 years:

(Rs. In Million)

For the year ended Mid July,	FY17 (A)	FY18 (A)	FY19 (A)
Income from Operations	898	1,253	1,218
PBILDT	50	76	97
PAT	7	19	28
Overall Gearing (times)	2.80	2.33	2.44
Interest coverage (times)	1.61	1.84	1.98

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	33.13	CARE-NP BB
Short Term Bank Facilities	Trust Receipts/ Short Term Demand Loan	447.50	CARE-NP A4
Short Term Bank Facilities	Cash Credit	20.00	CARE-NP A4
Short Term Bank Facilities	Non-Funded Limit	200.00	CARE-NP A4
Total		700.63	