

Rating Rationale
Life Care Distributors Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Short Term Bank Facilities	1,450.00	CARE-NP A3 [A Three]	Revised from CARE-NP A4+ [A Four Plus]
Total Facilities	1,450.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has withdrawn the rating assigned to the long term bank facilities of Life Care Distributors Private Limited (LCD) as the company prepaid the loan in full and there is no amount outstanding under the loan as on date and upgraded the rating of ‘CARE-NP A4+’ to ‘CARE-NP A3’ assigned to the short term bank facilities of the company.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of LCD factors in increasing scale of operations and profitability over the period ended Mid-July 2019 and expected substantial improvement in debt service indicators for FY20 (refers to 12 months period ended mid-July 2020) as the company prepaid the long-term loans amounting to Rs. 394 million accounting for 35% of the total debt outstanding at the end of FY19. The ratings also factor in established and moderate track record of operations along with resourceful promoters and experienced management team in the related field, liquidity profile supported by liquid investments in listed shares and diversified distribution network and established brands. The ratings are however constrained by working capital intensive nature of operations and high utilization of working capital limits, leveraged capital structure with moderate debt coverage indicators at the end of Mid-July 2019, however expected to improve at the end of FY20, exposure to volatile interest rates and foreign exchange fluctuation risk. The ratings also factor presence in fragmented industry with competition from both national and international players and impact of COVID-19 on the operations and financials of the company. 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.

Impact of COVID-19 on the operations and financials of the company

With outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic, 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 of the economic activities. With lockdown imposed by the GoN, LCD had been able to distribute its products in a limited scale due to limitation of logistics, which have a negative impact on the revenue of the company during

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

the lockdown. Further, the central bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. While LCD's performance in 6MFY20 was satisfactory, the revenue growth momentum and profitability are expected to be under pressure for FY20.

Detailed Description of the Key Rating Drivers

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. Promoters of the company have infused additional equity share capital of Rs.7 Mn during FY19 to support the operations of the company.

Increasing scale of operations and profitability over the period

The total operational income of the company increased by ~4% to Rs. 2,025 Mn during FY19 over FY18 majorly due to increase in quantity sold, addition of new product lines followed by continuous increasing customer base. Further, other operational income of the company increased to Rs. 52 Mn in FY19 from Rs. 11 Mn in FY18. Owing to increase in total operational income, PBILDT of LCD has also increased by ~12% in FY19 over FY18. The profitability of the company has also been increasing over the period. PAT of the company has increased by ~38% to Rs. 55 Mn in FY19 over FY18 majorly on account of increase in PBILDT followed by increase in other non-operational income. This was however partially offset by increase in interest expenses. Further, the company has achieved total sales of Rs. 2,017 Mn during 11 months period ended FY20.

Liquidity profile supported by liquid investments in listed shares

LCD had an investment portfolio of around Rs. 189 Mn during FY19. Most of the investments are in securities of different listed banks and financial institutions, insurance companies etc. which are readily marketable in nature lends 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.

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 2-3 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 4-4.5 months 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 mid-June, 2020 was 92%.

Leveraged capital structure with moderate debt coverage indicators

Debt-Equity ratio of the company was low at 0.88x at the end of FY19 which improved from 0.93x at the end of FY18 majorly due to increase in tangible networth upon accretion of profit and infusion of additional capital by the promoters. Overall gearing ratio of the company improved marginally to 2.52x at the end of FY19 despite increase in overall loans of the company on back of improvement in the networth. The interest coverage ratio of the company declined to 1.69x during FY19 (FY18: 1.81x). With increase in GCA in FY19, total debt/GCA of the company improved from 22.68x at the end of FY18 to 18.49x at the end of FY19. Further, during FY20, the company has completely repaid its term loan of Rs. 279 Mn and unsecured loan of Rs. 115 Mn outstanding at the end of FY19 through proceeds from sale of land, by which the debt coverage indicators are expected to improve substantially in FY20.

Exposure to volatile interest rates

Nepalese banking sector 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 banks and financial institutions is subject to volatile interest rate.

Foreign exchange fluctuation risk

Around ~20-30% of the purchases by the company were invoiced in foreign convertible currency during FY19, 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. LCD has incurred Rs. 1 Mn of foreign exchange fluctuation loss during FY19 which exposes LCD to foreign exchange fluctuation risk. 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.

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,	FY17	FY18	FY19
	(Audited)		
Income from Operations	1,688	1,939	2,025
PBILDT	92	102	115
PAT	39	40	55
Overall Gearing (times)	2.88	2.58	2.52
Interest coverage (times)	2.12	1.81	1.69

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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	Nil	Withdrawn
Short Term Bank Facilities	Working Capital Loan	715.00	CARE-NP A3
Short Term Bank Facilities (Proposed)	Working Capital Loan	65.00	CARE-NP A3

Short Term Bank Facilities	Non-fund based limits	670.00	CARE-NP A3
Total		1450.00	