

Rating Rationale
United Distributors (Nepal) Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Short Term Bank Facilities	7,120.00 (Reduced from Rs. 7,576.10)	CARE-NP A2 [A Two]	Upgraded from CARE-NP A3+ [A Three Plus]
Total Facilities	7,120.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has withdrawn the rating assigned to the long term bank facilities of United Distributors (Nepal) Private Limited (UDN) as the company prepaid the loan in full and there is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 A2’ 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 UDN factors in growth in scale of operations with improvement in profitability margins in FY19 (audited, refers to 12 months period ended mid-July 2019), moderate capital structure with improvement in debt service coverage indicators and liquidity profile supported by liquid investments. The ratings also factor in established and long track record of operations along with strong promoters and experienced management team and diversified distribution network with established brands. The ratings, however, continues to be constrained by working capital intensive nature of operations, exposure to volatile interest rates along with regulatory risks and foreign exchange fluctuation risk. The ratings also constrained by fragmented nature of industry with competition from both national and international players and impact of Covid-19 on the operations and financials of the company. Ability of the company to scale up the operations of the company, maintaining the profitability margins, effective management of working capital with improvement in solvency position and ability of the company to manage foreign exchange fluctuation risks related to imports of traded items will remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established and long track record of operations along with strong Promoters and experienced management team

UDN has an operational track record of 16 years in import/ trading of Fast Moving Consumer Goods (FMCG) in Nepal. The promoters of UDN have an experience of over two decades in the same line of business. UDN

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

derives strength from its strong promoters and being a part of the Vishal Group of Companies, which have a strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. UDN is managed under the overall guidance of its two member Board of Directors (BoD). Mr. Anuj Agrawal is the Chairman of UDN and has more than 2 decades of experience in FMCG business. He is also the chairman of Nepal Infrastructure Bank Limited and vice president of Confederation of Nepalese Industries (CNI). Mr. Vivek Agrawal is the managing director of UDN and has more than 10 years of experience in FMCG business. BoDs are supported by a team of qualified and experienced members. The promoters of the company infused Rs. 16 Mn and Rs 13 Mn during FY19 and FY20 respectively to support the operations of the company.

Growth in scale of operations with improvement in margins and profitability in FY19

Total operating income of the company increased by ~8% to Rs. 9,334 during FY19 mainly due to growth in sale of traded products on account of increase in quantity sold on the back of continuously increasing customer base coupled with better price realizations in items traded. Due to better realizations the PBILDT margin of the company increased from 7.47% in FY18 to 8.77% in FY19. PAT of the company increased to Rs. 339 Mn with PAT margin of 3.63% in FY19 from PAT of Rs. 181 Mn and PAT margin of 2.10 % in FY18. During the 10 months period ended FY20, the company achieved total sales of Rs. 7,800 Mn.

Moderate capital structure with improvement in debt coverage indicators

The overall gearing ratio of the company was high at 2.89x at the end of FY18 which improved substantially to 1.90x at the end of FY19 mainly due to accretion of the profits to the Networth, equity infusion by promoters, repayment of portion of term loan coupled with maintaining working capital loan limits within the same range. The interest coverage ratio of the company improved to 2.49x during FY19 (FY18: 1.73x) and term debt to GCA ratio was comfortable at 0.84x (2.51x at the end of FY18) with improvement in total debt to GCA ratio at 8.43x at the end of FY19 (17.86x during FY18). Further, during FY20 the company has completely repaid its term loan of Rs. 314 Mn outstanding at the end of FY19 through its internal accruals on account of which the debt coverage indicators are expected to improve further in FY20.

Liquidity profile supported by liquid investments in listed shares

UDN had an investment portfolio of Rs.1,053 Mn at the end of FY19 based on fair market value. Most of the investments are in shares of different listed banks and financial institutions, insurance companies etc. which are readily marketable in nature, providing liquidity cushion to the company.

Diversified distribution network and established brands

Currently UDN operates its business through two locations Birgunj and Kathmandu in the territory of Nepal. With more than 500 dealers, UDN has countrywide presence covering most of the parts of Nepal. UDN has diverse customer base with top 10 customer contributing ~42% of the total sales during FY19. Good Day, Tiger, Bourbon, Digestive Sugar Free, Marigold, Duracell, Kinder Joy, Tic Tac, Eno, Sensodyne, Boost, Horlicks,

Amul, Kellogg, Bounty, Mars, Pedigree, Snickers, Pringles, Oral B, Ariel, Pampers, Tide, Whisper, Gillette, Head & Shoulders, Olay, Pantene, Red Bull, All Out, Baygon, Kiwi etc. are the major FMCG brands that UDN is involved in import and trading, which have strong brand recognition.

Key Rating Weaknesses

Working capital intensive nature of operations

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 at a level of around 2 to 3 months, as the company supplies its products to the dealers and realization of the sales is done in due course of time. The average inventory period of the company 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 4-5 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 9 months ending April 2020 was 90%.

Exposure to volatile interest rates

Nepalese banking sectors are fixing interest rate on lending based on quarterly base rate and interest rate will 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.

Foreign exchange fluctuation risk

Around ~30% of the purchases by the company were invoiced in foreign currency during FY19, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. Though UDN used to take hedging mechanism while importing trading items, UDN has incurred Rs. 40 Mn foreign exchange fluctuation loss during FY18 and earned Rs. 12 Mn foreign exchange fluctuation gain in FY19. The ability of the company to manage 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/ trading of FMCG from various countries and sell in domestic market. UDN 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.

Exposure to regulatory risks

Trading of imported FMCG products in Nepal is exposed to regulatory risks due to change in government policy towards import of certain items and also its custom duty. The Ministry of Industry, Commerce and Supplies of Nepal, published the order to ban import of energy drinks and flavoured synthetic drinks in the Nepal Gazette on June 17, 2019 in order to check the widening trade deficit. Also, in the new measures taken by the Nepal Government import of caffeine mixed energy drinks has been completely barred. Further, in the budget for FY21 announced on May 28, 2020 the import duty on chocolates has been reduced from 40% to 30% which may have a positive impact on the sales of the company derived from imported chocolates. The negative impact of any regulatory risk on sales of the company, however may be partially insulated as the products the company deals with are high value branded and quality products of which replacement may not be easily available.

About the Company

United Distributors (Nepal) Private Limited (UDN) was registered as a private limited company as on April 2003. Registered office of the company is at Kathmandu-22, Khichapokhari. UDN is involved in import/ trading of FMCGs. Currently UDN is involved in supplying more than 1350 varieties of products manufactured by around 17 FMCG companies around the globe under more than 80 brands. For most of the products, the company is sole distributor in Nepal although the agreements have non-exclusivity clause.

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	6,703	8,645	9,334
PBILDT	709	646	819
PAT	271	181	339
Overall Gearing (times)	3.31	2.89	1.90
Interest coverage (times)	2.20	1.73	2.49

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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	-	Withdrawn
Short Term Bank Facilities	Working Capital Loan	3,000.00	CARE-NP A2
Short Term Bank Facilities	Non-fund based limits	4,120.00	CARE-NP A2
Total		7,120.00	