

Rating Rationale

A.S.T. Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	27.47	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB [Double B]
Short Term Bank Facilities	667.50	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4 [A Four]
Total Facilities	694.97 (Reduced from Rs. 700.63 Mn)		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of AST takes into account the improvement in financial risk profile, capital structure and debt service coverage indicators of the company at the end of FY20 (audited, refers to 12 months period ended mid-July 2020). However, the ratings continue to be constrained by trading nature of operations marked by price volatility risk on traded commodities, exposure to foreign exchange fluctuation risk and working capital intensive nature of its operation. The ratings also factor in fragmented industry with competition from both national and international players and exposure to volatile interest rates. The ratings, derive strength from moderate track record of operations with experienced promoters in the related field 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. Also, the ability of the company to pass through changes in prices of the traded products to customers and manage the foreign exchange fluctuation risks related to import of traded items will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

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 4-4.5 months. The average inventory period of the company remains at around 3 months. 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 68.84% during last 12 months period ended mid-January 2021.

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

Price volatility risk on traded commodities and foreign exchange fluctuation risk

AST imported around 95% of the items it trades from India and other countries during FY20. Any sharp adverse movement in the cost of purchase 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. During FY20, the company incurred foreign exchange loss of Rs. 8 Mn compared to Rs. 0.8 Mn of foreign exchange gain during FY19. The ability of the company to pass through changes in prices to the traded products to customers and manage the foreign exchange fluctuation risks related to import 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 Jhunjunwala 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. During FY20, promoters of the company infused additional share capital of Rs. 30 Mn and director's loan of Rs. 16 Mn to support increasing operations of the company.

Improvement in revenue, profitability and cash accruals of the company during FY20

The total income of the company increased by ~14% to Rs. 1,383 Mn during FY20 despite impact of lockdown imposed due to Covid-19 pandemic on the operations of the company. This increase in revenue was majorly due to increase in sales of optical fiber cable and equipment followed by improvement in average price realization of various products traded during the year. With this, PBILDT and PBILDT margin of the company also improved. Improvement in margins was also due to better price realization made by the company on sales price with company being able to sell its products on premium. With improvement in PBILDT followed by decline in interest expenses, profitability of the company improved in FY20.

Moderate debt service coverage indicators at the end of FY20

Debt-equity of the company was low at 0.19x at the end of FY20 which increased from 0.18x at the end of FY19 mainly due to directors' loan infused during FY20 to fund the operations of the company as well as increment in term loan availed. This was however offset by increase in networth of the company upon increase in share capital during the year followed by accretion of profit to the networth. Total gearing ratio was moderate at 1.71x at the end of FY20 which improved from 2.44x at the end of FY19 mainly due to lower utilization of working capital loans. AST had moderate interest coverage ratio of 3.10x.

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 31% of the total sales during FY20.

About the Company

A.S.T. Private Limited (AST) was registered as a private limited company on December 23, 2011 and 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,	FY18	FY19	FY20
	<i>(Audited)</i>		
Income from Operations	1,253	1,218	1,383
PBILD T Margin (%)	6.09	7.99	9.01
Overall Gearing (times)	2.33	2.44	1.71
Interest coverage (times)	1.84	1.98	3.10
Current Ratio (times)	1.08	1.09	1.20
Total Debt/ Gross Cash Accruals (times)	15.09	14.11	7.14

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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	27.47	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	467.50	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	200.00	CARE-NP A4+
Total		694.97	