

## Rating Rationale

### United Distributors (Nepal) Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	7,120.00	CARE-NP A2 [A Two]	Reaffirmed
<b>Total Facilities</b>	<b>7,120.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of ‘CARE-NP A2’ assigned to the short term bank facilities of United Distributors (Nepal) Private Limited (UDN).

#### Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of UDN factors in continued growing scale of operations with satisfactory profitability margins, moderate capital structure and debt service coverage indicators of the company along with comfortable liquidity profile supported by liquid investments. The rating also factors in established and long track record of operations along with strong promoters and experienced management team and diversified distribution network along with its association with established brands.

The rating, however, continues to be constrained by elongated operating cycle of the company, exposure to volatile interest rates along with regulatory risks and foreign exchange fluctuation risk. The rating is also constrained by competitive nature of industry with presence of national and international players.

*Ability of the company to scale up its operations while maintaining its financial risk profile will remain the key rating sensitivities. Any further increase in debt levels and investments will be a key monitorable aspect.*

#### 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 17 years in import and 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 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 by Mr. Anuj Agrawal and Mr. Vivek Agrawal. 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

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.

***Diversified distribution network and association with established brands***

Currently UDN operates its business through four locations namely Birgunj, Parsa, Dhangadi 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 ~45% of the total sales during FY20. The company is sole importer and distributor of companies having established brand presence like Procter & Gamble, GlaxoSmithKline, Britannia Industries, Unilever India, Gujarat Co-Operative Milk Marketing among others. Association with strong brand image ensures customer loyalty and aid in the differentiation of products with the competitors.

***Liquidity profile supported by liquid investments in listed shares***

UDN had an investment portfolio of Rs. 879 Mn at the end of FY20 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.

***Continued growth in scale of operations with improvement in margins and profitability***

Total operating income of the company increased by ~4% to Rs. 9,736 Mn during FY20 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 products traded. Furthermore, the PBILDT margin of the company also improved from 8.77% in FY19 to 10.61% in FY20 on account of economies of scale and change in product mix. Due to better management of inventory, the company has controlled pilferages and reduced wastage which also led to improvement in margins, During the 6 months period ended FY21, the company achieved total sales of Rs. 6,208 Mn.

***Comfortable capital structure and debt service coverage indicators***

At the end of FY20, the company has external debt mainly in the form of working capital borrowings. The capital structure of the company stood moderate marked by overall gearing ratio of 1.58x at the end of FY20 and shown an improvement from 2.00x over previous balance sheet date. The improvement was on account of increase in net-worth base due to accretion of the profits. At the end of H1FY21, overall gearing ratio has improved to 1.24x on account of lower utilization of WC loans.

The interest coverage ratio of the company also improved to 3.23x in FY20 from 2.49x during FY19 mainly due growth in PBILDT generated during the year. Total Debt/ GCA remained moderate at 5.99x in FY20. The month end working capital utilization against the drawing power of the company reduced to 64% during the last 9 months period ending mid-Jan 2021.

**Key Rating Weaknesses*****Elongated operating cycle***

The company has an elongated operating cycle marked by an average operating cycle of approximately 130 days for FY20, primarily on account of the high collection period. Being a highly competitive business, the average collection period remained high at around 83 days during FY20. The company imports most of the traded products and is required to maintain adequate inventory in order to cater to the immediate demand of the customers. Also, the company deals in a large product range leads to high inventory holding for the company of ~ 53 days in FY20. Furthermore, the company receives a payable period of around 10 days from its suppliers. Combining all these factors entails to an elongated operating cycle for the company.

***Foreign exchange fluctuation risk***

Around 28% of the purchases by the company were invoiced in foreign currency during FY20, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. Though UDN takes hedging mechanism while importing trading items, UDN has incurred foreign exchange fluctuation loss of Rs. 25 Mn in FY20. The ability of the company to manage the foreign exchange fluctuation risks related to imports of traded items will be the key rating sensitivities.

***Competitive nature of industry with presence of both domestic and international players***

The company is in import/ trading of FMCG from various countries and sells 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. In past, GoN has issued orders to ban the imports of few products and increase / reduce the duties on imported products. Therefore, the company is also exposed to unfavourable changes in the government policy towards imports; however, it 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	FY18	FY19	FY20
	(Audited)		
Income from Operations	8,645	9,334	9,736
PBILD Margin (%)	7.47	8.77	10.61
Overall Gearing (times)	2.89	2.00	1.58
Interest Coverage (times)	1.73	2.49	3.23
Current Ratio (times)	1.15	1.10	1.13
Total Debt/Gross Cash Accruals (times)	17.86	8.85	5.99

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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 Loan	3,780.00	CARE-NP A2
Short Term Bank Facilities	Non-fund based limits	3,340.00	CARE-NP A2
<b>Total</b>		<b>7,120.00</b>	