

Asian Distributors Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Long-term Bank Facilities	34.28	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short-term Bank Facilities	850.30	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	884.58 [Rs. Eight Hundred Eighty-Four Million Five Hundred and Eighty Thousand Only]		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BBB-' to the long-term bank facilities and 'CARE-NP A3' to the short-term bank facilities of Asian Distributors Private Limited (ADP).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ADP continues to derive strength from long track record of operations, experience of promoters and management team in related field, established distribution network, association with reputed brands. The ratings also factor in moderate capital structure and liquidity profile of the company supported by liquid investments. The ratings also took cognizance of its fluctuating scale of operations and declining profitability margins in the last 3 financials years ended FY20 (audited, refers to 12 months period ended mid-July, 2020) which improved during 9MFY21 (9 Months refer to period mid-July to mid-April).

The ratings are, however, constrained by its working capital-intensive nature of operations, exposure to volatile interest rates and exposure to regulatory risk. The ratings also factor in foreign exchange fluctuation risk, competitive nature of industry.

Going forward, the ability of the company to profitably scale up the operations on a sustainable basis while maintaining its capital structure shall be the key rating sensitivities. Furthermore, effective management of working capital while limiting the total debt and dividend pay-outs would also act as a key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established and long track record of operations along with experienced promoters and management team in the related field

The promoters of the company have an experience of over two decades in importing and trading FMCG products. The company is currently managed by Mr. Ashish Kumar Agrawal and Mr. Aditya Kumar Agrawal. Mr. Ashish Kumar Agrawal is the Chairman & Managing Director and has been associated with the company for more than a decade. He looks after the overall affairs of the company. Mr. Aditya Kumar Agrawal is associated with the company in the capacity of Director and looks after business development & marketing related activities of the company. The promoters have also been infusing funds into the company in the form of equity to fund the operational needs of the company.

Established distribution network coupled with association with established brands

ADP has national presence reaching all parts of Nepal and covering all major towns and cities. Currently, the company has more than 100 stockiest / sub-distributors in Nepal. ADP is presently involved in supplying more than 134 varieties of products manufactured by around 8 FMCG companies with major contribution from companies like United Biscuits

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

(U.K), Zydus Wellness (India), United Biscuits (India), Hygenic Research Institute Pvt. Ltd. (India), Guylian (Belgium), Beiersdorf AG (Germany), Seabamed (Germany) which have strong brand recognition over different countries. For most of the products, the company is sole distributor in Nepal.

Moderate financial risk profile

Company's total operating income (TOI) has been fluctuating over the past three financial years (FY18-FY20). TOI has registered growth in FY19 and decline in FY20. The decline in TOI was on account of lockdown imposed by GoN during FY20. The company reported decline of 15% in TOI during FY20 over previous year and the revenue booked by the company was Rs. 1,027 Mn in FY20. For the period FY18-FY20, PBIDLT margin declined on y-o-y basis from 7.36% in FY18 to 5.86% in FY20. The company has large product portfolio having varied margins. The change in the revenue mix mainly impacted the PBIDLT margin of the company. However, on account of decline in interest expenses during FY20, ADP has maintained its PAT margin. During 9MFY21 ended mid-April, 2021, ADP has booked operating income of Rs. 1,024 Mn.

Debt equity ratio of the company continued to remain comfortable at 0.13x at the end of FY20 which improved from 0.18x at the end of FY19 on account of scheduled repayment of term loans coupled with improvement in tangible network with plough back of profit into the business and infusion of additional equity in FY20. Overall gearing ratio of the company also improved to 1.22x as on mid-July, 2020 from 1.39x as on mid-July, 2019 on account of above said reasons. The month end working capital utilization against the drawing power of the company for last 12 months ending mid-April, 2021 was 66%.

Interest coverage ratio of the company remained moderate at 1.74x in FY20 while Total Debt/ Gross Cash Accruals remained moderately high at 12.16x in FY20.

Liquidity profile supported by liquid investments in listed shares

ADP had an investment portfolio of ~Rs. 149 Mn at the end of FY20 with most of the investments in shares of different listed banks and financial institutions. The investments are readily marketable in nature and lends liquidity cushion to the company.

Key Rating Weaknesses

High operating cycle

The operations of the company are working capital intensive in nature as the company imports its products mainly from India, Italy, UK, Thailand, Germany & Switzerland and sells it in the domestic market. ADP's average inventory holding period as well as average collection period remained at ~3 to 3.5 months during FY20. Overall operating cycle of the company was around 162 days in FY20 which has led to high reliance of the company on bank finance for the working capital needs.

Foreign exchange fluctuation risk

Around ~30% of the purchases by the company were invoiced in foreign convertible currency during FY20, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. ADP does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees. Company reported Rs. 0.59 Mn of foreign exchange fluctuation loss in FY20 which exposes company to foreign exchange fluctuation risk.

Competition from both domestic and international players

The company is in importing and trading of FMCG from various countries and selling the same in domestic market. ADP operates in the highly competitive 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 from foreign countries and selling domestically.

Exposure to regulatory risk

In order to provide impetus to the local FMCG manufacturing industry, Nepal Government in the budget presented for FY20, has increased import duty on most of the imported products and has also imposed ban on import of certain items like energy drinks and synthetic drinks. This has been continued in the budget for FY22 as well, with only reduction in import duty on import of chocolates. As a result of increase in custom duty, imported products will now be available to the consumers at a much higher price in comparison to the domestically manufactured products. This may impact the turnover and profitability of the companies dealing in import/export of FMCGs, however the effect may be partially insulated as the products the company deals with are reputed branded products of which replacement may not be easily available.

About the Company

Asian Distributors Private Limited (ADP) is a private company engaged in import/trading of major international food brands in Nepal since 1998. The operations of trading in FMCG products were earlier carried out in other entities which were later transferred to ADP after its registration as a private limited company on March 4, 2011. Currently, ADP is distributors of brands like Nivea, Streak, McVitie's Biscuits, Complian, Nycil, Glucon D, Lindt, Olitalia Olive Oil, Guylian, etc, in Nepal.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	1,028	1,211	1,027
PBILDT Margin (%)	7.36	6.26	5.86
Overall Gearing Ratio (times)	1.77	1.39	1.22
Interest Coverage (times)	2.35	1.72	1.74
Current Ratio (times)	1.12	1.20	1.31
Total Debt/Gross Cash Accruals (times)	9.63	11.39	12.16

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	34.28	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limits	560.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	290.30	CARE-NP A3
Total		884.58	

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About CARE Ratings Nepal Limited:

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