

Arvind Emporium Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Facilities – Working Capital Loans	370.00	CARE-NP A4+	Assigned
Short Term Facilities – Non-Fund Based Limits	710.00	CARE-NP A4+	Assigned
Total Facilities	1,080.00		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP A4+' to the short term bank facilities of Arvind Emporium Private Limited (AEPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AEPL is constrained by fluctuating scale of operations and profitability, product price volatility and foreign exchange fluctuation risk, low regulatory entry barriers and exposure to volatile interest rate. The rating, however, drives strength from established track record of operations with experienced promoters, operational synergies within the group, moderate capital structure & debt service coverage indicators and moderate operating cycle. *Going forward, the ability of AEPL to increase its scale of operations while maintaining its profitability margin and maintaining its debt levels while improving its capital structure will be key rating sensitivities. Any elongation in operating cycle will also act as key rating sensitivity.*

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Fluctuating scale of operations and profitability margin

Company's total operating income has been fluctuating over the past three years (FY19-FY21; FY refer to 12 months period ended mid-July 2021). TOI has registered a decline on y-o-y basis in FY20 and registered a growth in FY21 primarily on account of change in the product mix of the company. AEPL's sale in FY20 declined on account of discontinuation of trading of coal during the year which was compensated in FY21 by addition of new products mainly bitumen, having higher value which resulted in growth in total operating income.

The company's profitability margins have been historically on the lower side owing to the trading nature of the business where the value addition is comparatively less. This apart, interest burden on working capital borrowing also restricted the net profitability of the company at around 1.5% for the last 3 financials years ending in FY20. Furthermore, the PBIDLT margin of AEPL are fluctuating as it has moderate product portfolio having diversified margins. The change in product mix normally led to fluctuation in operating margin during FY21 which improved from 3.78% in FY20 to 7.45% in FY21. Accordingly, net profitability improved to 4.32% in FY21.

Bearing on profitability due to product price volatility and foreign exchange fluctuation risk

The price of the major products imported by AEPL fluctuates in the international market with price of fuel and bitumen increasing on y-o-y basis leading to volatile raw material price having impact on profitability. The risk of raw material price fluctuation is further increased for bitumen with higher holding period of around 3 months. Also, partial hedging of foreign currency-based loans exposes AEPL to foreign exchange fluctuation risk.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Inherent risk associated with the trading business

The company is exposed to the risks associated with the trading nature of business like inherently low profitability margins, availability of the traded commodity in desired quantity and quality etc. Though the company has been getting regular orders and also has an established business relationship with its customers, the company does not have any long-term sourcing and supply contracts with its suppliers and clients, respectively. The company is also exposed to the competition in imported trading business due to low entry barriers.

Low regulatory entry barriers

Low entry barriers for the products traded by AEPL exposes the company to risk of new players entering the segment. Further, the risk of AEPL's customer resorting to direct imports also remains a concern. However, the same is mitigated to some extent on account of logistic issues and other challenges being faced in small quantity imports on individual basis. Also, AEPL being one of the largest established players in the industry the risk of any competition from new entrants is reduced to a great extent.

Exposure to Volatile Interest Rate

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 6 months. Therefore, funding from Bank and Financial Institutions is subject to volatile interest rate.

Key Rating Strengths**Long track record of operations with resourceful and experienced promoter and established clientele**

AEPL has an operational track record of more than 3 decades in import and trading of various raw materials related to cement industry and construction sector. The company's promoter Mr. Surendra Kumar Goel has an experience of over 15 years in various industries and is also a director of HR Goel Group of Nepal which is involved in diversified trading and manufacturing business. He is also associated in various capacities with BFIs, and Hydropower sectors.

Due to long track record of operations, the company has been able to build an established and reputed customer base for itself resulting into repeated orders, thereby securing the revenue profile of the company.

Diversified product portfolio and operational synergies with in group

The company deals with large number of construction companies and cement manufactures and the company has long term business relationship with its customers. Also, due to the long vintage of the promoters, AEPL has established strong relationship with reputed companies. The sales are made through distributors and traders. Furthermore, the wide product portfolio helps the company in diversifying the revenue profile, thereby mitigating the risk of adverse price movements in any one commodity.

Further, AEPL has advantage of group synergies through its associate concerns involved in cement manufacturing where the products traded by AEPL is used as raw material. AEPL is in a competitive advantage as compared to its peers for secured supply of gypsum and fly ash and having regular orders for the same.

Moderate capital structure and comfortable debt servicing coverage

The capital structure of the company is marked moderate with overall gearing of 1.20x at the end of FY21 (~0.75x as at the end of FY20). Due to trading nature of the business, AEPL's total debt comprised of only working capital loan of Rs. 276 Mn and unsecured loan of Rs. 19 Mn at the end of FY21 with no term loan being availed. During FY21, AEPL introduced new products (~majorly bitumen comprising 32% of total purchase) to the product mix financed through working capital borrowings and internal accruals. Consequently, working capital loan increased by Rs.227 Mn in FY21 pressurizing overall gearing level which is partially offset by equity infusion of Rs. 50 Mn. With improvement in PBILD and low finance cost,

interest coverage ratio stood comfortable at 11.10x for FY21 (PY: 4.65x). Total debt to Gross Cash Accrual Ratio also stood comfortable at 3.71x for FY21 (PY: 4.27x)

Moderate Operating cycle

The company has moderate operating cycle of 80 days for FY21 with average inventory of 40 days and credit period of 60 days allowed by AEPL to its customers. The company keeps inventory for around 1-1.5 months on account of trading of products which are imported from different countries namely India, Bhutan and Dubai. Company generally allows 30-60 days of credit period to its customers on account of competitive nature of business. Further, the procurement is normally backed by letter of credit having lesser usance period leading to average payable period of 13 days for FY21. The average utilization of working capital limits against drawing power remains around 80% for the 12 months ended mid-Dec 21.

About the Company

Arvind Emporium Private Limited (AEPL) was initially incorporated in the year 1983 as a proprietorship firm and was later converted into a private company in September 2008. AEPL is involved in import and trading of raw materials related to cement industry and construction sector which includes Gypsum, Coal, Iron Ore, Bauxite, Fly Ash and Bitumen. The company is also an exclusive dealer of Nepal of MYK Schomburg Private Limited for construction chemicals and is also an authorized fuel distributor of Nepal Oil Corporation with its fuel pump located at Birgunj. AEPL is part of the HR Goel group of companies of Nepal and all the shares of the company are held by the promoter Mr. Surendra Kumar Goel.

Brief Financial Performance during the last 3 years is as follows:

(Rs. Million)

For the Period Ended / as at Mid-July,	FY19	FY20	FY21
	(A)	(A)	(A)
Income from Operations	1,762	1,089	1,724
PBILD Margin (%)	4.15	3.78	7.45
Overall Gearing (times)	1.56	0.75	1.20
Interest Coverage (times)	2.52	4.65	11.10
Current Ratio (times)	1.65	1.95	1.61
Total Debt/ Gross Cash Accruals (times)	5.00	4.27	3.71

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Fund Based Limit	370.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	710.00	CARE-NP A4+
Total		1,080.00	

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About CARE Ratings Nepal Limited:

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