

A.S.T. Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities – Term Loan	20.00 (Decreased from Rs. 27.47 Mn)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities – Fund Based Limits	480.00 (Increased from 467.5)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Short Term Bank Facilities – Non fund Based Limits	200.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	700.00 (Increased from Rs. 694.97 Mn)		

* Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AST continue to be constrained by AST's trading nature of operations marked by price volatility risk on traded commodities, exposure to foreign exchange fluctuation risk and working capital intensive nature of operations. The ratings also factor in fragmented industry with competition from both national and international players and exposure to volatile interest rates.

The ratings, however, derive strength from moderate track record of operations with experienced promoters in the related field and established distribution network of AST with locational advantage. The ratings also factor in moderate debt service coverage indicators of the company and steady improvement in scale and profitability of the company during FY21 (audited, FY refers to the twelve-months period ended mid-July).

Going forward, the ability of the company to profitably scale up the operations, effective management of working capital with improvement in solvency position will be the key rating sensitivities. Furthermore, 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 also remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of operations

The operations of the company remain working capital intensive in nature. AST imports its products from foreign countries and stores and sells them in the domestic market. The collection period of the company remains at 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 5-6 months leading to high reliance of the company on bank finance for the working capital needs. The average utilization of fund-based working capital limit against drawing power was high at around 90% during the twelve-month period ended mid-October 2021.

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

Price volatility risk on traded commodities and foreign exchange fluctuation risk

AST imported around 90% of the items it traded during FY21 from India and other countries. Any sharp adverse movement in the cost of purchase without any corresponding movement in the traded goods' price will likely impact the profitability of the company, especially in light of its high inventory holding period of around three months. Furthermore, 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. However, there was no foreign exchange loss in FY21 (it had reported foreign exchange loss of Rs. 8Mn during FY20). The ability of the company to pass through changes in prices of the traded products and 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 the business of import and trading of chemicals and industrial raw materials from various countries and selling them in the domestic market. AST operates in a 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 Strengths***Moderate track record and experienced promoters in the related field***

AST was registered as a private limited company in 2011 for various trading activities which was previously operating as proprietorship firm with name Allied Shruti Traders since 2005. The members in the board of directors of the company possess wide experience in the field of trading. Mr. Sumit Kumar Jhunjhunwala is the Chairman and Managing Director of the Company. He has been involved in the trading business since the inception of AST and looks after the day-to-day operations of the company. The promoters of the company have also been infusing funds in the form of equity and loans to support company operations, when needed. During FY20, promoters of the company infused additional share capital of Rs. 30 Mn and director's loan of Rs. 16 Mn. In FY21, additional director's loan of Rs. 19Mn was provided to support increasing operations of the company.

Moderate financial risk profile

The total income of the company increased by ~16% to Rs. 1,605 Mn during FY21, majorly due to increase in sales of optical fiber cable and equipments coupled with improvement in average price realization of various products traded during the year. PBILDT increased from Rs. 125 MN in FY20 to Rs. 140 Mn in FY21. Higher turnover and gross margins led to the company's PAT improving from Rs. 50 Mn in FY20 to Rs. 68 Mn in FY21.

Debt-equity of the company continued to remain low at 0.18 at the end of FY21 (FY20: 0.19x). Overall gearing ratio continued to remain moderate at 1.90x at the end of FY21, increased slightly from 1.71x at the end of FY20 on account of increase in working capital loans to support the increased operations. However, interest coverage ratio was comfortable at 4.75x during FY21 which was 3.10x during FY20 due to decline in interest expense coupled with growth in PBILDT.

Diversified distribution network with locational advantage

Currently AST operates its business through four branches around the territory of Nepal with head office in Birgunj. Remaining branches are located at major industrial cities of Nepal i.e. Kathmandu, Butwal, and Biratnagar. 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 around 36% of the total sales during FY21.

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, optical fiber cable and equipment etc.

Brief financial performance of AST during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21(A)
Income from Operations	1,218	1,383	1,605
PBILDT Margin (%)	7.99	9.01	8.75
Overall Gearing (times)	2.44	1.71	1.90
Interest coverage (times)	1.98	3.10	4.75
Current Ratio(times)	1.09	1.20	1.28
Total Debt/Gross Cash Accruals(times)	14.11	7.14	7.59

A: Audited

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	20.00	CARE-NP BB+
Short Term Bank Facilities	Working Capital Limit	480.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	200.00	CARE-NP A4+
Total		700.00	

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