

## Garden Mart Private Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	560.00	CARE-NP BB- [Double B Minus]	Assigned
<b>Total Facilities</b>	<b>560.00</b> <b>(Five Hundred and Sixty Million Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB- [Double B Minus]' to the long term bank facilities of Garden Mart Private Limited (GMPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of GMPL are primarily constrained by its short track record of operations and leveraged capital structure which is likely to sustain over the near term amid the ongoing expansion plans. The rating also factors in working capital intensive nature of operations leading to high reliance on bank borrowings, fragmented industry with competition from small and large players and exposure to volatile interest rates.

The rating, however, derive strengths from experienced promoter and management team of the company in manufacturing and trading industry, growing presence in the country with increasing number of outlets pan Nepal, established supply chain infrastructure leveraging established relationships of Shikhar Group and stable demand outlook for retail segment over the medium term coupled with increasing preference of customers for one-stop shopping marts.

*Going forward, the ability of the company to manage growth in the operations & maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Below average financial risk profile marked by leveraged capital structure

GMPL commenced its operations from FY22 (Unaudited; FY refers to the twelve-month period ended mid-July) and booked Total Operating Income (TOI) of Rs. 769 Mn. PBILDT and PAT margin stood moderate at 7.08% and 2.27% respectively during FY22. Capital structure of the company stood leveraged with overall gearing ratio of 4.52x and debt-equity ratio at 2.44x at the end of FY22. As majority of GMPL's bank borrowings is towards meeting working capital requirements, higher gearing levels at FY22 end was mainly on account of high working capital related borrowings amid increasing scale of operations. Furthermore, interest coverage ratio stood moderate at 1.96x during FY22. However, total debt/ GCA of the company was high at above 36x for FY22. Hence, the ability of the company to profitably scale up the operations while managing its solvency position and liquidity parameters will remain crucial from analytical perspective.

#### Working capital intensive nature of operations

The operations of GMPL are working capital intensive in nature. The company procures its products from local suppliers, stores and sells them through franchises. The company generally allows 45 days' credit period to its customers, however, during FY22 the collection period was 137 days, impacted mainly due to majority of sales being near the year end. The average inventory period of the company is around one month as it has to maintain sufficient inventory level. The credit

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

period provided by suppliers ranges up to 4 months based on negotiations. Operating cycle of the company was 54 days in FY22. The working capital requirements were met largely through bank borrowings which normally results in average utilization of over 90% of its sanctioned working capital limits for the past twelve-month period ended mid-October 2022. The ability of GMPL to efficiently manage working capital requirements leading to lesser dependence on borrowings would be critical from credit perspective.

### **Short track record of operations**

GMPL started its commercial operations from July 2021 and therefore has a very short operational track record of just over year. Amid relatively short operational track record, stabilization of business is yet to be established, particularly given the expansion plans of the company to increase its outlets. The company's business prospects will hinge on its ability to quickly turnaround these outlets. However, having directors with nearly three decades of experience in manufacturing and trading business and company dealing with brand products of their own subsidiary companies, which have an established market presence, bodes well for the business prospect of the company going forward.

### **Fragmented industry with competition from small and large players**

The retail segment of Nepal is characterized by its high degree of fragmentation. GMPL has to compete with large number of small and medium-size players as well as other emerging large players as number of departmental stores and supermarkets dealing with similar range of product portfolio is on the up. Increasing presence of various small and large players results in intense competition within the industry. High fragmentation and intense competition could lead to price wars and discounts resulting in pressure on margins.

### **Exposure of volatile interest rate**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

### **Key Rating Strengths**

#### **Experienced promoter in manufacturing and trading industry**

GMPL derives strength from its strong promoter group belonging to Shikhar Organization which has strong presence in manufacturing and trading of Fast Moving Consumer Goods (FMCG) products in Nepal. The group has presence in diversified businesses and is involved in trading/manufacturing products such as food, agro machinery, water pumps, sweets & and other FMCG products. The overall operations of the company is managed by Mr. Kedarnath Sharma, Chairman, who has experience of over 27 years in manufacturing and trading business. He is also chairman at Natraj Agro Private Limited (CARE-NP BB). He is supported by experienced management team.

### Increasing presence across Nepal

Currently, GMPL is operating through its franchises which are strategically located at different regions of Nepal focusing on urban and sub-urban area where people's flow is maximum. In order to cater growing scale of operations, the company will also operate through self-owned stores from mid of FY23. The company plans to have 10 owned outlets with 100 total outlets (including franchises) by the end of FY23. Although scale of operations is likely to increase after these expansion, albeit with limited scope of substantial growth over the long-term.

### Diversified supply chain infrastructure

GMPL has a wide supply chain infrastructure in place for better operational efficiencies leveraging on Shikhar Group's long standing presence and experience in Nepal. The company monitors, manages and controls the inventory levels at various nodes to maintain the flow of inventory efficiently. The inventory management system enables it to offer and display correct merchandise assortments in the right mix at various price points on the shelves as per the regional preference. Currently GMPL operates its business from Central Distribution Center (CDS) in Kathmandu valley with five Regional Distribution Center (RDC) situated at major locations of Nepal in order to provide better supply chain facilities to its franchises.

### Stable demand outlook of retail segment

The demand prospects of retail segment have been emerging over the years with the preference of people towards one stop solution for the purchase of every personal and house items. Consequently, departmental stores have been on a growing trend in Nepal. Demand of the retail segment is expected to remain stable over the medium term which remains a positive aspect for GMPL's business prospects.

### About the Company

GMPL, private limited company incorporated on August 26, 2019, is a retail chain dealing with food products, general merchandise & apparel products under one roof. The registered office of the company is located at Kathmandu, Nepal. Currently, the company have 23 outlets running across different region in Nepal.

Brief financial performance of GMPL during last one year is given below:

(Rs. In Million)

Particulars	FY22 (UA)
Income from Operations	769
PBILDT Margin (%)	7.08
Overall Gearing (times)	4.52
Interest coverage (times)	1.96
Current Ratio (times)	1.22
Total Debt/Gross Cash Accruals (times)	36.31

UA: Unaudited

### Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fund Based Limit	560.00	CARE-NP BB-
<b>Total</b>		<b>560.00</b>	

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