

## Kantipur Vet Distributors Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	147.94	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	850.30	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>998.24</b> <b>(Nine Hundred Ninety Eight Million and Two Hundred Forty Thousand Only)</b>		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Kantipur Vet Distributors Private Limited (KVDPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KVDPL are constrained by its elongated collection period leading to working capital intensive nature of business and leverage capital structure amid moderate debt coverage indicators. The ratings also factor in foreign exchange fluctuation risk, fragmented industry with competition from both domestic and international players, exposure to volatile interest rate and exposure to regulatory risk.

The ratings, however, derive strengths from KVDPL's long track record of operations along with experienced promoters and management team, established distribution network coupled with increasingly diversified product range and moderate profitability margins in FY22 (Unaudited, FY refers to the twelve-month period ended mid-July).

*Going forward, the ability of the company to profitably scale up its operations on a sustainable basis, timely realization of debtors and effective management of working capital requirements with rationalizing of its debt levels would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### **Working capital intensive nature of operations with significantly elongated collection period**

The operations of the company are working capital intensive in nature. KVDPL has to maintain certain level of inventory to guard against supply shortages and meet out the immediate demand of customers as the supply is totally dependent upon imports. The company's procurement is mainly in the form of imports. Total operating cycle of the company increased to 116 days in FY22 from 58 days in FY21 (Audited) mainly due to increase in collection period. KVDPL's average collection period increased to 228 days in FY22 compared to 137 days in FY21. Timely collection from debtors had been more challenging in FY22 due to ongoing liquidity crisis resulting in delays from customers. Cash flow from operations have consequently been impacted by surmounting debtors during FY22. Recovery of dues from the clients is likely to remain challenging over the near-term and will remain a key monitorable aspect.

#### **Leverage capital structure amid moderate debt coverage indicators**

The capital structure of the company is leveraged marked by overall gearing ratio of 2.41x at the end of FY22 (FY21: 4.72x). The overall gearing ratio improved in FY22 from FY21 on account of lower debt levels coupled with accretion of profits to reserves; however remain high on account of higher outstanding LC payables on import upon purchase from the suppliers. Debt-Equity ratio stood low at 0.09x at the end of FY22 (FY21: 0.19x).

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

The interest coverage ratio is comfortable at 11.16x at the end of FY22 (FY21: 8.36x) on account of increment in profitability of the company. The total debt to GCA also stood comfortable at 4.61x for FY22 (FY21: 8.47x) on account of partial repayment of Hire Purchase in FY22.

**Exposure to 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.

**Foreign exchange fluctuation risk**

KVDPL imports animal health products and feed supplements from various countries and distributes them in Nepal through dealers and key account. KVDPL has to make payment to its foreign suppliers in USD and hedging for the same is not exercised which exposes KVDPL to the risk associated with the fluctuation in foreign currency exchange rate. However, the company has the policy to pass on the fluctuation cost to the consumers to maintain the bottom line.

**Fragmented industry with competition from both domestic and international players**

The company is in import/ trading of animal health products and feed supplements from various countries and sells them in domestic market. KVDPL operates in the fragmented industry with around 400 big and small players in the market. As a result, the company has to compete in terms of price to capture the limited market of importing similar products from foreign countries and selling domestically.

**Exposure to Regulatory risk**

KVDPL is governed by Ministry of Health and Ministry of Agriculture. Pharmaceuticals sector being a matter of public interest is highly regulated industry. Department of Drug Administration (DDA) under Ministry of Health and Population is the major government institution responsible for regulating pharmaceuticals sector in Nepal. Policies like fixing of maximum retail price on selected products could have impact on profitability of Pharma sector. Companies operating under this sector are required to obtain the authorization from the DDA for opening the LCs and carrying the business in Nepal. KVDPL has obtained the authorization via both the regulatory authorities and is required to follow the regulation accordingly. DDA carries out the WHO-GMP certification once in two years which is part of quality assurance which ensures that products are consistently controlled to the quality standards appropriate to their intended use and as required by the marketing authorization. Hence, sector is prone to regulatory risk and changes in other policies of Government of Nepal.

**Key Rating Strengths****Long track record of operations along with experienced promoters and management team in the related field**

Initially, KVDPL was incorporated as sole proprietorship under the name Kantipur Vet Distributors in 2001. Later, in January 2019, the business was transferred to KVDPL. The promoters' of KVDPL are associated with the company since inception of its operations. The company is managed under the overall guidance of its three- members Board of Directors (BoD), having wide experience in the pharmaceutical sector. Ms. Suna Subedi, Chairman of KVDPL, manages the overall task of the business with

support of Mr. Hem Raj Badal and Mr. Amit Kumar Jha, executive directors of KVDPL. The BoDs are supported by a team of qualified and experienced professionals to run the day-to-day operations of KVDPL.

### **Established distribution network coupled with association with established brands with increasingly diversified product range**

KVDPL has national presence reaching all parts of Nepal and covering all major towns and cities. Currently, the company has around 200 dealers in all major cities throughout the country. Established dealer base provides the competitive edge to the company. KVDPL is presently involved in supplying varieties of products manufactured by more than 20 companies associated with Pharmaceutical and animal healthcare. Furthermore, KVDPL has a diversified product range like poultry feed supplements, vaccine, medicine, etc. associated with animal healthcare, factoring well for the company's business environment. For most of the products, the company is sole distributor in Nepal although the agreements have non-exclusivity clause.

### **Moderate financial risk profile**

Total revenue of the company remained steady in FY21-FY22 at Rs. 1,194 Mn (vis-à-vis Rs. 1,175 Mn in FY21). Aided by steady sales coupled with higher margin, PBILDT margin of the company improved to 14.18% from 9.03% in FY21 leading to increase in PBILDT in FY22 to Rs. 169 Mn. Consequently, KVDPL booked net profit of Rs. 107 Mn in FY22 with PAT margin of 8.97% compared to Rs. 58 Mn in FY21 with PAT margin of 4.90%.

### **About the Company**

KVDPL was incorporated on January 11, 2019. Initially, the business was operated by a sole proprietorship business established in 2001 under the name of Kantipur Vet Distributors, which later transferred its business to KVDPL. The company is involved in import and distribution of animal and poultry health products such as Veterinary Medicine, Vaccine, and Feed Supplements along with veterinary instruments (Feeders & Drinkers). The company is the distributor of more than 20 brands and has countrywide presence in all seven provinces of Nepal.

Brief financial performance of KVDPL during last 2 years is given below:

(Rs. in Million)

Particulars	FY21 (A)	FY22 (UA)
Income from operations	1,175	1,194
PBILDT Margin (%)	9.03	14.18
Overall Gearing (times)	4.72	2.41
Interest coverage (times)	8.36	11.16
Current Ratio (times)	1.13	1.24
Total Debt to Gross Cash Accruals (times)	8.47	4.61

A: Audited; UA: Unaudited

### **Annexure-1: Details of Facilities Rated**

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	147.94	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	350.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	500.30	CARE-NP A4 [A Four]
<b>Total Facilities</b>		<b>998.24</b>	

**Contact us****Analyst Contact**

Ms. Sarina Khakurel

Contact No.: 977-01-4012628

Email: [sarina.khakurel@careratingsnepal.com](mailto:sarina.khakurel@careratingsnepal.com)

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: [pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

**Relationship Contact**

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: [achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

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