

A.S.T. Private Limited

Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	6.30 (decreased from 20.00)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	693.70 (increased from 680.00)	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	700.00 (Seven Hundred Million Only)		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings 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 remain constrained by its 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, continue to derive strength from experienced promoters in the related field and established distribution network of AST with locational advantage. The ratings also factor in steady improvement in scale and profitability of the company during FY22 (Audited; FY refers to the twelve-month period ending mid-July) with moderate debt service coverage indicators.

Going forward, the ability of the company to maintain growth in the operations while maintaining profitability, and efficient management of working capital requirements leading to improved solvency indicators 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 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 business leading to reliance on bank borrowings

The operations of AST are working capital intensive in nature as the business requires to maintain adequate inventory of raw material and finished goods to avoid stock-outs. AST imports its products from India and various other countries and sells them in the domestic market. The company holds inventory for around three months and the inventory turnover was 72 days during FY22. The company allowed around four-month credit period to its customers; the average collection period being 120 days during FY22 (FY21: 130 days). Total operating cycle of the company stood at 154 days in FY22 (FY21: 154 days). The high working capital requirements were met largely through bank borrowings which normally results in average utilization of around 80% of its sanctioned working capital limits. The ability of AST to efficiently manage working capital requirements leading to lesser dependence on borrowings would be critical from credit perspective.

Price volatility risk on traded commodities and foreign exchange fluctuation risk

AST imported around 90% of its traded items during FY22 from India and various other countries. The raw materials cost was around 81% of the total operating income of the company during FY22. Thus, any volatility in prices of the same

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

shall/may impact the profitability of the company. 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, exposing the company to foreign exchange fluctuation risk. The company doesn't have any policy to hedge its foreign currency risk. AST incurred foreign exchange loss of Rs. 1 Mn in FY22 (no foreign exchange loss during FY21). The ability of the company to pass through change in prices of the traded products and to manage the foreign exchange fluctuation risks related to imports of traded items will remain crucial from its profitability perspective.

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 similar businesses of importing products from foreign countries and selling domestically.

Exposure to volatile interest rates

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 increased base rates of BFIs in the first half 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 promoters and management team

AST, previously operating as a proprietorship firm named Allied Shruti Traders (since 2005) was registered as a private limited company in 2011 for various trading activities. The company is managed under the overall guidance of its Board of Directors (BoD) who possess wide industry experience. AST has three directors in its board chaired by Mr. Sumit Kumar Jhunjhunwala, who has been involved in the trading business since the inception of AST and looks after the day-to-day operations of the company. Similarly, other directors of the company also have experience in the trading business. The BOD is further supported by an experienced team across various functions/departments.

Moderate financial risk profile

During FY22, total operating income (TOI) increased by ~21% to Rs. 1,950 Mn from Rs. 1,605 Mn during FY21 on account of increase in quantity sales of the product mix. Despite increase in TOI, sales of optical fiber cable and equipment which contributed to around 14% of total sales during FY21 declined to 4% during FY22 on account of intense competition with the existence of strong players in the optical fiber business. However, PBILDT margin of the company improved to 9.25% during FY22 from 8.74% during FY21 with PAT margin at 3.68% in FY22 (FY21:4.25%). Consequently, Gross Cash Accruals improved to Rs. 82 Mn in FY22 from Rs. 79 Mn in FY21. Furthermore, during H1FY23 (Unaudited, refers to six-month period ended mid-January) the company booked total revenue of Rs. 1,033 Mn.

Capital structure of the company stood moderate with overall gearing ratio at 1.70x at the end of FY22 which improved from 1.90x at the end of FY21 supported by an improving net worth base owing to accretion of profits which was partially offset by higher working capital loan utilization and increased unsecured loans. Debt equity ratio at the end of FY22 was at 0.24x (FY21: 0.18x). Interest coverage ratio stood moderate at 3.24x during FY22, which however declined from 4.75x during FY21 on account of increased interest expenses. Furthermore, Total Debt/GCA stood at 8.74x during FY22 from 8.47x during FY21.

Diversified distribution network with locational advantage

Currently AST operates its business through three branches in Nepal with its head office in Birgunj. The three branches are located in major industrial cities of Nepal i.e. Kathmandu, Butwal, and Itahari. The Butwal branch and head office of Birgunj are located nearby the 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 customers contributing to around 37% of the total sales during FY22.

About the Company

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 the last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21(A)	FY22(A)
Income from Operations	1,383	1,605	1,950
PBILDT Margin (%)	9.01	8.75	9.25
Overall Gearing (times)	1.71	1.90	1.70
Interest coverage (times)	3.10	4.75	3.26
Current Ratio(times)	1.20	1.28	1.36
Total Debt/Gross Cash Accruals(times)	7.93	8.47	8.74

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	6.30	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Working Capital Limit	493.70	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	200.00	CARE-NP A4+ [A Four Plus]
Total		700.00	

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About CARE Ratings:

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