

Triveni Byapar Company Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	2,290.00 (Increased from Rs. 1,740)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	2,290.00 (Two Thousand Two Hundred Ninety Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP A4' assigned to the short term bank facilities of Triveni Byapar Company Private Limited (TBC).

Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TBC continues to be constrained by its leveraged capital structure with weak debt coverage indicators. The rating also factors in working capital intensive nature of operations, exposure to volatile interest rates, foreign exchange fluctuation risk and presence in a fragmented industry with competition from both domestic and international players. The rating, however, derives strengths from TBC's growing scale of operations, established track record of operations along with strong promoters and experienced management team in the related field. The rating also factors in diversified distribution network with established brands and increasing demand for consumer electronic products in Nepal.

Going forward, the ability of the company to effectively manage its working capital requirements leading to lower operating cycle and rationalization of debt levels with improvement in solvency indicators and liquidity position of the company will remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure with weak debt coverage indicators

TBC's capital structure remains leveraged with overall gearing ratio of 3.59x at the end of FY22 (Audited; FY refers to the twelve-months period ending mid-July) compared to 3.98x at the end of FY21. Debt service indicators as indicated by interest coverage ratio decreased to 2.06x (FY21: 3.09x). The deterioration in the interest coverage ratio at the end of FY22 was on account of higher working capital borrowings to cater growing scale coupled with higher interest rates. Furthermore, total debt/ GCA of TBC also stood high at 13.95x for FY22 as overall debt levels remain high.

Working capital intensive nature of operations

The operations of TBC is working capital intensive in nature. The company imports its products from foreign countries mainly India, China, Korea, etc. and sells it in the domestic market. TBC's customers are mainly retailers and the company normally allows credit period of around two to three months. Accordingly, the average collection period of the company stood around 60 days in the last 2 financial years (FY21 and FY22). The company has large product portfolio and procurement is mainly in the form of imports having high lead time. Consequently, the company has to maintain inventory levels to meet the immediate demand of its customers which lead to high inventory holding of more than 4 months. Furthermore, average creditor days of the company is generally low at 20 days as most of the goods are imported through LC at sight. Entailing all, resulting into high overall operating cycle of the company of around 6 months leading to higher

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

dependence on borrowings for funding working capital requirements. Consequently, the average working capital utilization against the drawing power of the company for the twelve month period ending mid-February 2023 was high at around 90%.

Foreign exchange fluctuation risk

Around 38% of the purchases by the company were invoiced in foreign convertible currency during FY22, other than Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. TBC does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Indian Rupees. TBC had incurred foreign exchange gain of Rs. 0.32 Mn in FY22 while it suffered Rs. 0.27 Mn of foreign exchange fluctuation loss during FY21. The ability of the company to pass through changes in prices to the customers and managing the foreign exchange fluctuation risks related to its products will remain critical from credit perspective.

Exposure to volatile interest rate

Sustained requirement for short-term working capital borrowings has led to a high interest expense for TBC (Rs.142 Mn during FY22) leading to direct impact in the company's net profitability. The company's interest rates are based on 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.

Fragmented industry with competition from both domestic and international players

The company is engaged in import/ trading of consumer durable goods from various countries and selling it in the domestic market. TBC operates in a fragmented industry, as the company has to compete with several local players as well as other international players who are into the business of importing similar products from foreign countries and selling domestically. TBC's growth prospects are also limited by the presence of other distributors in the country for major brands such as Samsung and Panasonic coupled with availability of choices to customers in variety of other imported brands. Also, presence of domestic manufacturing industry in few of the consumer goods segment increases the competition to some extent.

Key Rating Strengths

Established track record of operations along with strong promoters and experienced management team

TBC derives strength from its strong promoter group belonging to the Sanghai business family. The business family is one of the largest business groups of Nepal involved in diversified business of banking, insurance, manufacturing, trading and other businesses. The promoters of company have experience of over two decades in importing and trading fast moving consumer goods. Company's board consist of single member, Mr. Shailesh Sanghai, who is the Managing Director of TBC and has an experience of more than a decade in the related business. He is supported by a team of qualified and experienced professionals to run the day-to-day operations of TBC.

Diversified distribution network with established brands

TBC is involved in import and trading of consumer household products of major companies like Samsung, Panasonic, and Sansui etc. which have strong brand recognition over different countries. TBC is presently involved in supplying around 90 varieties of home appliances products manufactured by around 12 original equipment manufacturers around the globe. For products of Sansui, the company is sole distributor in Nepal although the agreements have non-exclusivity clause. For products of Samsung and Panasonic, TBC is one of the two dealers in Nepal, however competition in pricing between the dealers is mitigated as the pricing is controlled by the suppliers. TBC has national presence reaching all parts of Nepal and covering all major towns and cities. Currently, TBC has around 1,619 dealers across all seven provinces of Nepal with highest number of dealers present in Kathmandu which is the main market of the company.

Growing scale of operations

TBC reported significant increase in Total Operating Income by ~49.79% to Rs. 4,023 Mn (FY21: Rs. 2,686 Mn). Trading sales of the company increased by 56% to Rs. 4,000 Mn while manufacturing sales nullified due to discontinuation of assembly of LED TVs. Despite the increase in revenue, PBILDT margin of the company slightly decreased to 7.26% compared to 7.32% owing to higher promotional expenses. Furthermore, PAT of the company increased in FY22 owing to increase in non-operational income from incentives and other income which was partially set-off by increase in interest income. Consequently, PAT margin increased to 2.95% compared to 2.87% during FY21. The gross cash accruals earned by the company increased to Rs. 127 Mn from Rs. 85 Mn in FY21. During H1FY23 (H1 refers to the six-month period ending mid-January), the company has reported net sales of Rs. 1,818 Mn.

Increasing demand for consumer electronic products in Nepal

During FY22 total value of imported electronic and electrical equipment in Nepal was around Rs. 75 Bn, which has increased by around 18% y-o-y. This growth in demand for consumer electronic products has surged over FY21-FY22, boosted by higher demands for household electronics. The increased demand is also supported by the improving electricity supply in the country along with rise in household income mainly from growing remittance inflows.

About the Company

TBC was incorporated on June 12, 2008 and is involved in trading of consumer goods of various international brands. The company gets various home appliances manufactured through OEM's from China from the last 10 years and sells it under its own brand "Yasuda".

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

(Rs. Million)

For the Period Ended	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,506	2,686	4,023
PBILDT Margin (%)	1.78	7.32	7.26
Overall Gearing (times)	2.62	3.98	3.59
Interest Coverage (times)	0.29	3.09	2.06
Current Ratio (times)	1.23	1.16	1.18
Total Debt/ Gross Cash Accruals (times)	Negative	17.65	13.95

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	1,170.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	1,120.00	CARE-NP A4 [A Four]
Total Facilities		2,290.00	

Contact Us

Analyst Contact

Ms. Sarina Khakurel

Contact No.: +977-01-4012628

Email: sarina.khakurel@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012630

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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