Arvind Emporium Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short Term Bank Facilities	**1,080.00**	**CARE-NP A4+ [A Four Plus]**	**Reaffirmed**
Total Facilities	**1,080.00 (One Thousand and Eighty Million Only)**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE- NP A4+' assigned to the short term bank facilities of Arvind Emporium Private Limited (AEPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AEPL continues to be constrained by its working capital-intensive nature of operations with elongated operating cycle, inherent risk associated with the trading business, low regulatory entry barriers and exposure to volatile interest rate.

The rating, however, derives strengths from AEPL's long track record of operations with resourceful and experienced promoters and established clientele, improved financial performance trend of the company in FY23 (Unaudited, FY refers to the twelve-months period ending mid-July), and diversified product portfolio and operational synergies within group.

Going forward, the ability of AEPL to maintain sales growth and manage working capital cycle along with reduction of dependence in working capital borrowing will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Elongated operating cycle

Though the liquidity ratios of the company appear to be moderate, the liquidity profile of the company reflects its high dependence on external borrowings. The is primarily attributed to AEPL's net operational cycle was high at 130 days during FY23 (FY22: 144 days), with average collection period of 87 days in FY23 increasing from 78 days in FY22, attributed to challenges in the economic landscape of construction sector, resulting in some delays in collection from its customers. Distributorship business has inherent high working capital intensity due to inventory holding requirements and a relatively high credit period offered to customers leading to a long collection period. The company holds buffer inventory on account of trading of products which are imported from different countries namely India, Bhutan, etc. Average inventory days in FY23 stood at 43 days which decreased from 69 days in FY22. However, counter-party risk remains moderate as a major portion of sales are to group associates. Furthermore, the procurement is normally backed by letter of credit mostly at sight leading to low average payable period. The average working capital utilization of the company against the sanctioned limits remained at around 70% during the last 12 months ended on mid-November 2023.

Inherent risk associated with the trading business

The company is exposed to the risks associated with the trading nature of business like inherently low profitability margins, availability of the traded commodity in desired quantity and quality, etc. Though the company has been getting regular orders and also has an established business relationship with its customers, the company does not have any long-term sourcing and supply contracts with its suppliers and customers, respectively. The company is also exposed to the competition in imported trading business due to low entry barriers. Furthermore, the profitability of AEPL is also impacted by the volatility in price of raw

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

materials like fuel, bitumen, etc. in the international market. Furthermore, the company's business operations are majorly dependent on the imports. Therefore, the company's profitability margins are exposed to volatility in foreign exchange which the company does not hedge.

Low regulatory entry barriers and highly competitive nature of industry

Low entry barriers for the products traded by AEPL exposes the company to risk of new players entering the segment. Furthermore, the risk of AEPL's customer resorting to direct imports also remains a concern. However, the same is mitigated to some extent on account of logistic issues and other challenges being faced in small quantity imports on individual basis. Also, AEPL being one of the largest established players in the industry, the risk of any competition from new entrants is reduced to a great extent.

Exposure to volatile interest rate

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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Key Rating Strengths

Long track record of operations with resourceful and experienced promoter and established clientele

AEPL has an operational track record of more than 3 decades in import and trading of various raw materials related to cement industry and construction sector. The company's promoter Mr. Surendra Kumar Goel has an experience of over 15 years in various industries and is also a director of HR Goel Group of Nepal which is involved in diversified trading and manufacturing business. He is also associated in various capacities with BFIs and Hydropower sectors. Due to long track record of operations, the company has been able to build an established and reputed customer base for itself resulting into repeated orders, thereby securing the revenue profile of the company.

Improved financial performance trend of the company in FY23

AEPL's financial performance was marked by an increasing scale of operations over the past three years (FY21-FY23). AEPL reported increase in Total Operating Income (TOI) by ~45% to Rs. 3,761 Mn (FY22: Rs. 2,585 Mn) aided by an increase in sales of Clinker, Bitumen and Fuel majorly to group associates.

The company's profitability margins have been historically on the lower side owing to the trading nature of the business where the value addition is inherently low. Boosted by higher revenues, PBILDT margin improved to 5.59% in FY23 from 4.45% in FY22. Consequently, the gross cash accruals earned by the company increased to Rs. 96 Mn in FY23, from Rs. 42Mn in FY22. Similarly, AEPL's capital structure stood moderate with overall gearing ratio, excluding unsecured loans from promoters, of 1.52x at the end of FY23 (FY22: 3.01x) owing to increase in tangible net worth amid accretion of profit to the reserve. However, debt protection metrics remained moderate amid relatively high utilization of working capital facilities. Total Debt to GCA of the company stood high at 9.66x in FY23, albeit improved from 24.78x in FY22. PBILDT interest coverage also stood moderate at 2.51x in FY23, improved from 2.09x in FY22. The company's ability to sustain the growth trend amid a challenging operating environment for the construction material sector over the near term will remain critical from credit perspective.

Diversified product portfolio and operational synergies within group

The company deals with large number of construction companies and cement manufactures and the company has long term business relationship with its customers. Also, due to the long vintage of the promoters, AEPL has established strong relationship

with reputed companies. The sales are made through distributors and traders. Furthermore, the wide product portfolio helps the company in diversifying the revenue profile, thereby mitigating the risk of adverse price movements in any one commodity.
AEPL has advantage of group synergies through its associate concerns involved in cement manufacturing where the products traded by AEPL is used as raw material. AEPL is in a competitive advantage as compared to its peers for secured supply of gypsum and fly ash and having regular orders for the same.

About the Company

Arvind Emporium Private Limited (AEPL) was initially incorporated in the year 1983 as a proprietorship firm and was later converted into a private company in September 2008. AEPL is involved in import and trading of raw materials related to cement industry and construction sector which includes Gypsum, Iron Ore, Bauxite, Fly Ash and Bitumen. The company is also an exclusive dealer of Nepal of MYK Schomburg Private Limited for construction chemicals and is also an authorized fuel distributor of Nepal Oil Corporation with its fuel pump located at Birgunj. AEPL is part of the HR Goel group of companies of Nepal and all the shares of the company are held by the promoter Mr. Surendra Kumar Goel.

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

(Rs. in Million)

Particulars	FY21 (A)	FY22 (A)	FY23 (UA)
Income from operations	1,723	2,585	3,761
PBILDT Margin (%)	4.57	4.45	5.59
Overall Gearing (times)	1.31	3.01	1.52
Interest coverage (times)	6.31	2.09	2.51
Current Ratio (times)	1.68	1.58	2.25
Total Debt to Gross Cash Accruals (times)	7.75	24.84	9.66

A: Audited, UA: Unaudited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	370.00	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	710.00	CARE-NP A4+ [A Four Plus]
Total Facilities		**1,080.00**	

Contact us

Analyst Contact
Ms. Dristi Acharya
Contact No.: +977-01-4012628
Email: dristi.acharya@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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