

**Rating Rationale**  
**A.S.T. Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	30.56	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	667.50	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>698.06</b>		

*Details of 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 A.S.T. Private Limited (AST).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of AST are constrained by working capital intensive nature of its operations leading to high utilization of working capital limits and high leverage, volatile profitability over the past 3 years, exposure to volatile interest rates, price volatility risk on traded commodities and exposure to foreign exchange fluctuation risk. The ratings also factor in fragmented industry with competition from both national and international players. The ratings, however, derive strength from moderate track record and experienced promoters in the related field, increasing scale of operations over the period, moderate debt service coverage indicators and diversified distribution network with locational advantage.

Ability to profitably scale up the operations of the company, effective management of working capital with improvement in solvency position are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weakness**

***Working capital intensive nature of operations and high leverage***

The operations of the company are working capital intensive in nature. AST imports its products from foreign countries and stores and sells in the domestic market. The collection period of the company remains at a level of around 3 months, as the company supplies its products on credit and realization of the sales is done in due course of time. The average inventory period of the company remains around 2 months. This leads to an overall operating cycle of around 3-4 months leading to high reliance of the company on bank finance for the working capital needs

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

and consequent high leverage. The maximum working capital utilization of the company remained high at above 95% for the past 12 months ended January 14, 2019.

***Volatile profitability over the past 3 years and exposure to volatile interest rates***

The profitability of the company was volatile over the past three years. The effect of massive earthquake of April 2015 coupled with effect of border blockade during FY16 benefited AST to trade the commodities at premium rate during FY16 leading to higher profitability. The same was normalized during FY17 which lead to decline in PBILDT margin from 6.29% during FY16 to 5.42% during FY17. Further, due to increase in the interest expenses on back of increase in the working capital utilization and increase in the interest rates, AST reported ~51% decline in PAT despite ~15% increase in total income during FY17 over FY16. With increase in scale of operations, PBILDT margin improved to 5.89% during FY18 over 5.42% during FY17. Further, Nepalese banking sector fix interest rates on lending, based on quarterly published base rates by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

***Price volatility risk on traded commodities and foreign exchange fluctuation risk***

AST imports around 90% of the items it trades from India and other third countries. Any sharp adverse movement in price without any corresponding movement in the traded goods price is expected to impact the profitability of the company especially in light of its inventory holding period of around two months. Further, substantial quantum of the items traded by AST is invoiced in USD during import, for which the company is exposed to the foreign exchange fluctuation risk. The ability of the company to pass through changes in prices to the traded products and managing the foreign exchange fluctuation risks related to imports of traded items will be the key rating sensitivities.

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

The company is in import and trading of chemicals and industrial raw materials from various countries and sells in the domestic market. AST operates in the fragmented industry, as the company has to compete with local players as well as other international players who are into the similar business of importing products from foreign countries and selling domestically.

**Key Rating Strength*****Moderate track record and experienced promoters in the related field***

AST was registered as private limited company in 2011, after running similar business under Allied Shruti Traders since 2005. The Board of Directors (BoD) of the company possesses wide experience in the field of trading. Mr. Sumit Kumar Jhunjhunwala is the Chairman and Managing Director of the Company has been involved in the trading business since inception of AST, looks after day to day operations of the company. The promoters of the company have infused Rs.35 Mn during FY17 (refers to 12 month period ended mid-July 2017) and Rs.18 Mn during FY18 in the form of equity share capital to support operational needs of the company.

***Increasing scale of operations, moderate debt service coverage indicators; albeit high leverage***

Total income of the company increased by ~15% to Rs.898 Mn during FY17 over FY16 and the same has been further increased by ~40% to Rs.1253 Mn during FY18. The increase in the scale of operations of the company over the period was mainly due to high sales realizations of the items traded, addition of new products and continuously increasing customer base. The PBILDT of the company has increased by 52% to Rs.74 Mn in FY18, which leads to moderate interest coverage ratios of 1.78x during FY18 (FY17: 1.57x). On back of low term loans as on July 16, 2018, the term debt to GCA ratio was low at 0.44x (0.26x during FY17). However, the overall gearing ratio of the company was high at 2.31x as on July 16, 2018 which is declining over the period mainly due to accretion of the profits to the networth and equity infusion partially offset by increase in the working capital loans.

***Diversified distribution network with locational advantage***

Currently AST operates its business through four branches around the territory of Nepal including head office at Birgunj. Other branches are located at major industrial cities of Nepal i.e. Kathmandu, Butwal and Biratnagar. Further three branches, except Kathmandu Branch, are located nearby Indian Border from where AST has been getting locational benefit for the import of trading items. In addition to the company's established products, trading of internet related cables and electrical parts also occupied major sales portion during FY18. Further, the company has diverse customer base with top 10 customer contributing 35% of the total sales during FY18.

### About the Company

A.S.T. Private Limited (AST) was registered as a private limited company on December 23, 2011, which was earlier registered as a proprietorship firm and operated since November 30, 2005 in the name of Allied Shruti Traders. It is promoted by the businesspersons around Parsa District of Nepal. The registered office of the company is 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 etc.

### Brief Financial Performance during last 3 years:

(Rs. In Million)

For the year ended Mid July,	FY16 (A)	FY17 (A)	FY18 (A)
Income from Operations	778	898	1,253
PBILDT	49	49	74
PAT	15	7	19
Overall Gearing (times)	3.84	2.80	2.31
Interest coverage (times)	1.95	1.57	1.78

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### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	30.56	CARE-NP BB
Short Term Bank Facilities	Trust Receipts/ Short Term Demand Loan	373.00	CARE-NP A4
Short Term Bank Facilities	Cash Credit	14.50	CARE-NP A4
Short Term Bank Facilities	Letter of Credit	250.00	CARE-NP A4
Short Term Bank Facilities	Bank Guarantee	30.00	CARE-NP A4
<b>Total</b>		<b>698.06</b>	