

**Rating Rationale**  
**United Distributors (Nepal) Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	423.90	CARE-NP BBB [Triple B]	Assigned
Short Term Bank Facilities	7,576.10	CARE-NP A3+ [A Three Plus]	Assigned
<b>Total Facilities</b>	<b>8,000.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB’ to the long term bank facilities and ‘CARE-NP A3+’ to the short term bank facilities of United Distributors (Nepal) Private Limited (UDN).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of UDN derives strength from established and long track record of operations along with strong promoters and experienced management team, increasing scale of operations, liquidity profile supported by liquid investments and diversified distribution network and established brands. The ratings, however, are constrained by volatile profitability over the past 3 years due to trading nature of business, working capital intensive nature of operations, leveraged capital structure with moderate debt coverage indicators, exposure to volatile interest rates and foreign exchange fluctuation risk. The ratings also factors fragmented industry with competition from both national and international players.

Ability of the company to scale up the operations of the company, maintaining the profitability margins, effective management of working capital with improvement in solvency position and ability of the company to manage foreign exchange fluctuation risks related to imports of traded items will remain the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strengths**

***Established and long track record of operations along with strong Promoters and experienced management team***

UDN has an operational track record of 16 years in import/ trading of Fast Moving Consumer Goods (FMCG) in Nepal. The promoters of UDN have an experience of over two decades in the same line of business. UDN derives strength from its strong promoters and being a part of the Vishal Group of Companies, which have a strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. UDN is managed under the overall guidance of its two member Board of Directors (BoD). Mr. Anuj Agrawal is the Chairman of UDN and has more than 2 decades of

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

experience in FMCG business. He is also the chairman of Nepal Infrastructure Bank Limited and vice president of Confederation of Nepalese Industries (CNI). Mr. Vivek Agrawal is the managing director of UDN and has more than 10 years of experience in FMCG business. BoDs are supported by a team of qualified and experienced members. The promoters of the company infused Rs.85 Mn during FY18 (refers to 12 months period ended mid-July 2018) to support the operations of the company.

### ***Increasing scale of operations***

Total operating income of the company increased by ~22% to Rs.6703 Mn during FY17 over FY16 and the same has been further increased by ~29% to Rs.8645 Mn during FY18. The increase in the scale of operations of UDN over the period was mainly due to increased sales realizations of the items traded, addition of new product line and increasing customer base.

### ***Liquidity profile supported by liquid investments in listed shares***

UDN had an investment portfolio of Rs.384 Mn at the end of FY17 and the same has increased by ~12% to Rs.430 Mn at the end of FY18. Most of the investments are in shares of different listed banks and financial institutions, insurance companies etc. which are readily marketable in nature, gives liquidity cushion to the company.

### ***Diversified distribution network and established brands***

Currently UDN operates its business through three locations Birgunj, Dhangadi and Kathmandu in the territory of Nepal. With more than 500 dealers, UDN has countrywide presence covering most of the parts of Nepal. UDN has diverse customer base with top 10 customer contributing ~44% of the total sales during FY18. Good Day, Tiger, Bourbon, Digestive Sugar Free, Marigold, Duracell, Kinder Joy, Tic Tac, Eno, Sensodyne, Boost, Horlicks, Amul, Kellogg, Bounty, Mars, Pedigree, Snickers, Pringles, Oral B, Ariel, Pampers, Tide, Whisper, Gillette, Head & Shoulders, Olay, Pantene, Red Bull, All Out, Baygon, Kiwi etc. are the major FMCG brands that UDN is involved in import and trading, which have strong brand recognition.

### **Key Rating Weaknesses**

#### ***Volatile profitability over the past 3 years due to trading nature of business***

The profitability of the company was volatile over the period. PBILDT of UDN has decreased by ~8% to Rs.655 Mn in FY18 due to addition of new product/ brands where the margins were on the lower side and foreign exchange fluctuation loss. The PBILDT margin of UDN declined to 7.58% during FY18 as compared to 10.58% during FY17. Due to decline in PBILDT, high bank loan interest expenses on back of increase in the interest rates during last two year, PAT of UDN declined by ~28% to Rs.194 Mn despite ~29% increase in total revenue during FY18 over FY17. Further, the company achieved income of Rs.4553 Mn and PBILDT of Rs.342 Mn during H1FY19 ended January 14, 2019.

***Working capital intensive nature of operations***

Operations of the company are working capital intensive in nature. The company 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 2-3 months, as the company supplies its products to dealers and realization of the sales is done in due course of time. The average inventory period of the company remains around 2 months as it has to maintain sufficient inventory in order to cater to the needs of the customers. This leads to an overall operating cycle of the company of around 4-5 months leading to high reliance of the company on bank finance for the working capital needs. The month end working capital utilization against the drawing power of the company for last 12 months ending March 14, 2019 was 83.11%.

***Leveraged capital structure with moderate debt coverage indicators***

The overall gearing ratio of the company was high at 3.05x at the end of FY18 which improved from 3.28x at the end of FY17 mainly due to accretion of the profits to the Networth, equity infusion by promoters, repayment of term loans and maintaining working capital loans within the same range. The interest coverage ratio of the company was moderate and declined to 1.75x during FY18. On back of low term loans as on July 16, 2018, term debt to GCA ratio was moderate at 2.41x, however total debt to GCA ratio was high at 18.34x at the end of FY18 due to high working capital loans availed.

***Exposure to volatile interest rates***

Nepalese banking sector fixes interest rates on lending based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, the funding from banks and financial institutions is subject to volatile interest rate.

***Foreign exchange fluctuation risk***

Around ~35% of the purchases by the company were invoiced in foreign currency during FY18, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. Though UDN used to take hedging mechanism while importing trading items, UDN has incurred Rs. 40 Mn foreign exchange fluctuation loss during FY18. The ability of the company to manage 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/ trading of FMCG from various countries and sell in domestic market. UDN operates in the fragmented industry, as the company has to compete with local players as well as other international players who are into the business of importing similar products and selling domestically.

**About the Company**

United Distributors (Nepal) Private Limited (UDN) was registered as a private limited company as on April 2003. Registered office of the company is at Kathmandu-22, Khichapokhari. UDN is involved in

import/ trading of FMCGs. Currently UDN is involved in supplying more than 1350 varieties of products manufactured by around 17 FMCG companies around the globe under more than 80 brands. For most of the products, the company is sole distributor in Nepal although the agreements have non-exclusivity clause.

**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	5,494	6,703	8,645
PBILDT	584	709	655
PAT	293	271	194
Overall Gearing (times)	4.92	3.28	3.05
Interest coverage (times)	3.51	2.20	1.75

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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	423.90	CARE-NP BBB
Short Term Bank Facilities	Working Capital Loans	6,510.00	CARE-NP A3+
Short Term Bank Facilities (Proposed)	Working Capital Loan	156.10	CARE-NP A3+
Short Term Bank Facilities	Letter of Credit/ Bank Guarantee #	910.00	CARE-NP A3+
<b>Total</b>		<b>8,000.00</b>	

# Out of total fund based working capital limits of Rs. 6,510 Mn, Rs. 3,450 Mn will be used as non-fund facilities (letter of credit/ bank guarantee) interchangeably.