

**Rating Rationale**  
**Asian Distributors Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	51.05	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	830.30	CARE-NP A3 [A Three]	Assigned
<b>Total Facilities</b>	<b>881.35</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 Asian Distributors Private Limited (ADP).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of ADP derives strength from long track record of operations with increasing scale, growth in profitability and moderate debt coverage indicators with low long term debt in FY18 (refers to 12 months period ended mid-July 2018). The ratings also factor in diversified distribution network, established brands, experienced promoters and management team in related field and liquidity profile of the company supported by liquid investments in listed shares. The ratings are, however, constrained by working capital intensive nature of operations with high utilization levels, exposure to volatile interest rates and exposure to regulatory risk related to import duty. The rating also factors in foreign exchange fluctuation risk and fragmented nature of industry with competition from both domestic and international players. Ability to profitably scale up the operations and effective management of working capital 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 experienced promoters and management team in the related field*

The promoters of company have an experience of over two decades in importing and trading Fast Moving Consumer Goods (FMCG). Company is managed under the overall guidance of its two member Board of Directors (BoD) which includes Businessmen/Industrialists with wide experience in the related sectors. Mr. Ashish Kumar Agrawal, is the Chairman & Managing Director of ADP from last 9 years, has 5 years of experience as director of Surya Life Insurance Company Ltd and is also Director of Global Trading Concern Pvt. Ltd. (business of distributing international liquor brands in Nepal rated CARE NP BBB-/A3). Mr. Aditya Kumar Agrawal is Director of Business Development & Marketing of Global Trading Concern Pvt. Ltd. for last 6 years. The BoDs are supported by a team of experienced professionals to run the day-to-day operations of ADP.

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

***Increasing scale of operations with growth in profitability and moderate debt coverage indicators with low long term debt***

The total income of the company increased by ~71% to Rs. 1,028 Mn during FY18 from Rs. 600 Mn in FY17. During the year, the company added new products which contributed significantly to the topline of the company. PBILDT of the company increased to Rs. 76 Mn in FY18 from Rs. 53 Mn in FY17 on account of increased sales revenue. However, the PBILDT margin declined to 7.44% in FY18 from 8.91% in FY17 due to increased selling and distribution expenses incurred by the company. PAT margin of the company came down to 4.07% during FY18 from 5.36% in FY17 on back of decline in PBILDT margin as well as significant increase in the interest expenses. The total debt to GCA ratio was high at 9.63x during FY18 (5.56x during FY17) due to high working capital loans availed by the company on account of increased level of operations. Due to increase in the loans, the overall gearing ratio of the company deteriorated to 1.77x at the end of FY18 from 1.09x at the end of FY17. The interest coverage ratio of the company declined to 2.3x during FY18 (FY17: 3.63x). During 11MFY19, ADP has already recorded net sales of Rs. 1,098 Mn.

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

ADP had an investment portfolio of ~ Rs.157 Mn at the end of FY18 and most of the investments are in shares of different listed companies which are readily marketable in nature to support the liquidity profile of the company.

***Diversified distribution network with established brands as major portfolio***

ADP has national presence reaching all parts of Nepal and covering all major towns and cities. Currently, the company has more than 100 sub-distributors in Nepal. ADP is presently involved in supplying more than 120 varieties of products manufactured by around 7 FMCG companies with major contribution from companies like United Biscuits (U.K), Heinz India Pvt. Ltd. (India), United Biscuits (India), Hygienic Research Institute Pvt. Ltd. (India), Beiersdorf AG (Germany) which have strong brand recognition. For most of the products, the company is sole distributor in Nepal.

**Key Rating Weaknesses*****Working capital intensive nature of operations and exposure to volatile interest rates***

The operations of the company are working capital intensive in nature as the company imports its products from foreign countries mainly India, Italy, UK, Thailand, Germany & Switzerland and sells it in the domestic market. ADP's average inventory holding period remains ~ 2 to 2.5 months and average collection period remains at a level of 60 days. 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. The month end working capital utilization against the drawing power of the company for last 12 months ending April 13, 2019 was 86%. Further, Nepalese banking sector fix 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 1-2 years. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate

***Foreign exchange fluctuation risk***

Around ~30% of the purchases by the company were invoiced in foreign convertible currency during FY18, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. ADP does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees. Company incurred foreign exchange fluctuation loss of Rs.0.74 Mn during FY18.

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

The company is in importing/ trading of FMCG from various countries and selling the same in domestic market. ADP 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 from foreign countries and selling domestically.

***Exposure to regulatory risk related import duty***

In order to provide impetus to the local FMCG manufacturing industry, Nepal Government in the budget presented for FY20, has increased import duty on most of the imported products and has also imposed ban on import of certain items like energy drinks and synthetic drinks. As a result of increase in custom duty, imported products will now be available to the consumers at a much higher price in comparison to the domestically manufactured products. This may impact the turnover and profitability of the companies dealing in import/export of FMCGs, however the effect may be partially insulated as the products the company deals with are reputed branded products of which replacement may not be easily available.

**About the Company**

Asian Distributors Private Limited (ADP) is a private company engaged in import/trading of major international food brands in Nepal since 1998. The operations of trading in FMCG products were earlier carried out in other entities which were later transferred to ADP after its registration as a private limited company on March 4, 2011. Currently, ADP is involved in supplying brands like Nivea, Streax, McVitie’s Biscuits, Complian, Nycil, Glucon D, Lindt, Olitalia Olive Oil etc, in Nepal.

**Brief Financial Performance during the last 3 years is as follows:**

(Rs. In Million)

<b>For the year ended Mid July,</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Income from Operations	537	599	1,028
PBILDT	47	53	76
PAT	34	32	42
Overall Gearing (times)	1.52	1.09	1.77
Interest coverage (times)	6.33	3.63	2.37

**Analyst Contact**

Ms. Shalini Sanghai  
[shalini.sanghai@careratingsnepal.com](mailto:shalini.sanghai@careratingsnepal.com)  
 Tel No.: +977-01-4445473

**Relationship Contact**

Mr. Sajan Goyal  
[sajan.goyal@careratingsnepal.com](mailto:sajan.goyal@careratingsnepal.com)  
 Tel No.: 9818832909/+977-01-4445472/3/4

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

**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	51.05	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	610.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit/Bank Guarantee	220.30	CARE-NP A3
<b>Total</b>		<b>881.35</b>	