

Rating Rationale
Asian Distributors Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	41.90	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	830.30	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	872.20		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed 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 continues to derive strength from long track record of operations with increasing scale, moderate capital structure and debt coverage indicators. The ratings also factor in diversified distribution network, established brands, experience of promoters and management team in related field and liquidity profile of the company supported by liquid investments. The ratings are, however, constrained by decline in profitability in FY19 (audited, refers to 12 months period ended mid-July 2019), working capital intensive nature of operations, exposure to volatile interest rates and exposure to regulatory risk. The rating also factors in foreign exchange fluctuation risk, fragmented nature of industry with competition from both domestic and international players and impact of COVID-19 on the operations and financials of the company. Ability to profitably scale up the operations and effective management of working capital will remain the key rating sensitivities.

Impact of COVID-19 on the operations and financials of the company

With outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization, which has affected Nepal as well, Government of Nepal (GoN) has imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. With lockdown imposed by the GoN, ADP had been able to distribute its Fast-Moving Consumer Goods (FMCG) products in a limited scale due to limitation of logistics, which have a negative impact on the revenue of the company during the lockdown. Further, the central bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. While ADP’s performance in 6MFY20 was satisfactory, the revenue growth momentum and profitability are expected to be under pressure during FY20.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

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 the company have an experience of over two decades in importing and trading FMCG products. The 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 and is also Director of Global Trading Concern Pvt. Ltd. (rated CARE NP BBB-/A3 on credit watch with negative implications). 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 team of experienced professionals to run the day-to-day operations of ADP.

Increasing scale of operations, however with decline in profitability

The total income of the company increased by ~18% during FY19 majorly due to growth in quantity of products sold as well improvement in realization. PBILDT of the company declined in FY19 majorly due to decline in other operational income followed by increase in selling and distribution expenses. During H1FY20 (Unaudited, refers to 6 months period ended mid-January 2020), ADP has booked total revenue of Rs. 632 Mn and PBILDT of Rs. 51 Mn.

Moderate capital structure and debt coverage indicators

Debt equity ratio of the company was low at 0.18x at the end of FY19 which improved from 0.24x at the end of FY18 upon repayment of term loans. This was followed by increase in tangible networth upon accretion of profit and increase in equity share capital by Rs. 10 Mn in FY19. Total gearing ratio of the company also improved to 1.39x in FY19 from 1.77x in FY18 upon decline in working capital loans outstanding at the end of the year. Interest coverage ratio of the company declined to 1.73x in FY19 from 2.37x in FY18. Total Debt/ Gross Cash Accruals of the company increased from 9.63x in FY18 to 11.29x in FY19 majorly due to decline in GCA.

Liquidity profile supported by liquid investments in listed shares

ADP had an investment portfolio of ~Rs. 160 Mn at the end of FY19 with most of the investments in shares of different listed banks and financial institutions. The investments are readily marketable in nature and lends liquidity cushion to 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 stockiest/sub-distributors in Nepal. ADP is presently involved in supplying more than 134 varieties of products manufactured by around 8 FMCG companies with major contribution from companies like United Biscuits (U.K), Zydus Wellness (India), United Biscuits (India),

Hygenic Research Institute Pvt. Ltd. (India), Guylian (Belgium), Beiersdorf AG (Germany) which have strong brand recognition over different countries. 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 as well as average collection period remained at ~2 to 2.5 months during FY19. Overall operating cycle of the company was around 130 days in FY19 which has led 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 10 months ending mid-April, 2020 was 78%.

Exposure to volatile interest rates

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

Foreign exchange fluctuation risk

Around ~30% of the purchases by the company were invoiced in foreign convertible currency during FY19, 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 gained Rs. 0.31 Mn in FY19 from foreign exchange fluctuation whereas in FY18 ADP had incurred Rs. 0.74 Mn of foreign exchange fluctuation loss which exposes company to foreign exchange fluctuation risk.

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

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. This has been continued in the budget for FY21 as well, with only reduction in import duty on import of chocolates. 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, Streak, McVitie's Biscuits, Complian, Nycil, Glucon D, Lindt, Olitalia Olive Oil, Guylian etc, in Nepal.

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

(Rs. In Million)

For the year ended Mid July,	FY17 (A)	FY18 (A)	FY19 (A)
Income from Operations	599	1,028	1,210
PBILDT	53	76	75
PAT	32	42	32
Overall Gearing (times)	0.89	1.77	1.39
Interest coverage (times)	3.63	2.37	1.73

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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	41.90	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Loan	550.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit/Bank Guarantee	280.30	CARE-NP A3
Total		872.20	