

Rating Rationale
Global Trading Concern Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating¹	Rating Action
Long Term Bank Facilities	190.73	CARE-NP BBB- [Triple B Minus] (Credit watch with negative implications)	Continues to be on credit watch with negative implications
Short Term Bank Facilities	1,300.30	CARE-NP A3 [A Three] (Credit watch with negative implications)	Continues to be on credit watch with negative implications
Total Facilities	1,491.03 (increased from Rs. 1,195.76 Mn)		

Details of Facilities in Annexure 1

The ratings assigned by CARE Ratings Nepal Limited (CRNL) of ‘CARE-NP BBB-’ to the long-term bank facilities and ‘CARE-NP A3’ to the short-term bank facilities of Global Trading Concern Private Limited (GTCPL) continues to be on credit watch with negative implications. The above ratings continue to be under ‘credit watch’ with negative implications, following the ongoing pandemic of COVID-19 as well as ban on the import of alcoholic beverages by Government of Nepal (GoN) via press release as on March 31 2020 and its expected impact on the operational and financial performance of the company and on the overall Nepalese liquor trading sector.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GTCPL continues to derive strength from long track record of operation along with established and diversified dealer network, authorised distributorship of different types and brands of liquor for Nepal including strong global brands as major portfolio and liquidity profile supported by liquid investments in listed shares. The ratings also factor in strong promoters and experienced management team in related field, increase in sales of the company leading to improvement in profitability and cash accruals, moderate capital structure and debt service coverage indicators and increasing demand of liquor products in Nepal. The ratings are, however, constrained by negative impact of Covid-19 on the operations and financials of the company, working capital intensive nature of operations exposure to volatile interest rates. The rating also factors in exposure to liquor related government policies, foreign exchange fluctuation risk and competition from other domestic as well as international liquor brands. Ability to profitably scale up the operations and effective management of working capital with improvement in solvency position and ability to sustain various government policies related to liquor remain the key rating sensitivities.

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

Negative impact of Covid-19 on the operations and financials of the company

With outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic, 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. GoN with an objective to safeguard the balance of foreign exchange reserve had banned the import of various items which included alcoholic beverages until further notice via press release as on March 31, 2020. Same has not been lifted till date. With lockdown imposed by the GoN, all trading activities of the company had also been suspended due to which the company was not able to make any sales upto June 14, 2020 which have a negative impact on the revenue of the company during the lockdown period. With ban on import of alcoholic liquor not been lifted, the business of the company is likely to be impacted. 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 GTCPL's performance in 6MFY20 was satisfactory, the revenue growth momentum and profitability are expected to be under pressure during FY20 and FY21.

Detailed Description of the Key Rating Drivers**Key Rating Strengths*****Strong promoters and experienced management team in related field***

GTCPL derives strength from its strong promoter group belonging to Vishal Group of Companies. Vishal Group is one of the largest business group of Nepal involved in diversified business of trading, banking, insurance, manufacturing and others. The company is managed under the overall guidance of the company's board of directors who possess wide experience in various industries and trading business. Mr. Ashish Kumar Agrawal is Director in GTCPL from last 10 years and Mr. Vishal Agrawal, Director of GTCPL, is also the Director of Vishal Group since 2000. Mr. Anil Kumar Agrawal, is the CEO of GTCPL since 20 years and heads the day to day operation of the company along with the support from experienced management team.

Increase in sales of the company leading to improvement in profitability and cash accruals

Revenue of the company is through sale of liquor which consists of assorted spirits, wine and beer. During FY19, revenue of the company improved by ~11% majorly on account of government limiting the quantity of imported liquor to be bought by army and also reducing the quantity of duty-free imported liquor which can be taken from the airport resulting increase in quantity sold of its products as well as improvement in overall average price realization. The PBILDT of GTCPL has been volatile over the period due to trading nature of business. Due to increase in the PBILDT and non-operational income, the net profit of the company improved by ~28% during FY19. This was partially offset by increase in interest expense. During H1FY20, GTCPL has booked total revenue of Rs. 1,269 Mn.

Moderate capital structure and debt service coverage indicators

Debt equity ratio of GTCPL was low at the end of FY19 at 0.51x which improved from 0.67x 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 to Rs. 130 Mn. The overall gearing ratio of the company improved to 2.30x at the end of FY19 from 2.51x at the end of FY18 despite increase in working capital loans. Total Debt/GCA was high at 16.90x in FY18 which has improved to 14.91x in FY19. GTCPL has been able to maintain its interest coverage ratio at same level of 2.01x in FY19 compared to 2.02x in FY18.

Authorised exclusive distributor of different types and brand of liquor for Nepal including strong global brands as major portfolio

GTCPL is an authorized distributor of assorted spirits (which include Whiskey, Vodka, Rum, Gin, brandy and Tequila) of Diageo Plc of UK. The company is also distributor for wine and Beer from different countries. GTCPL has entered into contract with Diageo plc. and its associate companies as an exclusive distributor of Diageo in Nepal. Diageo Plc. has been the supplier of GTCPL since 1998. Company's major sales consist of assorted spirits of Diageo Plc, a British Multinational alcoholic beverage company that owns two of the world's largest premium spirit brand namely Johnnie Walker Whiskey and Smirnoff Vodka. In FY2019, around 77% of sales of GTCL comprised of spirits from Diageo. Further, GTCPL has entered an agreement with Beam Suntory Inc as an authorized exclusive distributor of assorted spirits (includes Whiskey, Tequila, Cognac, Gin) from FY2020.

Long track record of operation along with established and diversified dealer network

GTCPL started operations from November 1998 as an authorized distributor of assorted spirits of various global brands in Nepal. GTCPL is one of the largest distributors of imported alcohol in Nepal with 45 no. of exclusive sub-dealers covering 3600 number of outlets in FY19.

Liquidity profile supported by liquid investments in listed shares

GTCPL had an investment portfolio of ~Rs. 99 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. As on July 1, 2020, GTCPL had liquid investment of Rs. 236 Mn based on the market prices of securities traded on Nepal Stock Exchange Limited (NEPSE).

Increasing demand of liquor products in Nepal

During FY16, the total value of imported liquor was ~ Rs. 2.65 Bn which grew at a CAGR of ~ 14% to Rs. 3.98 Bn in FY19. During 8MFY20, the total value of imported liquor was at Rs. 3.04 Bn. This growth in liquor is on account of rise in household income and changing perception of people regarding alcohol consumption in the society. However, the growth is limited on account of presence of domestic alcohol industry which also contributes substantially to the alcohol market in Nepal and the customer base for the company's product is limited and catering to the niche segment.

Key Rating Weaknesses***Working capital intensive nature of operations***

Operations of GTCPL are working capital intensive in nature due to the business requirement to maintain inventory as the supply is totally dependent upon imports. GTCPL's average inventory holding period remains ~2 to 3 months, average collection period remains ~ 1.5 to 2 months and average creditors period is low at 2 days. This makes operating cycle of ~3 to 4 months leading to high reliance on bank finance for the working capital needs.

Exposure to government policies related to liquors

Nepal government has stringent restrictions and policies relating to liquor production, import, sales and distribution to regulate alcohol products. Excise duty on beer, wines and spirits has been increasing over the period along with legally binding regulation on alcohol advertising and product placement. In addition to this there is restriction to use alcohols on government sponsored programs and events. A new customs rule that went into effect following the fiscal budget in May 2018, allows a single passenger no more than one litre of the alcoholic beverage. With increase in the vigilance at the airport and import of alcohol more than the prescribed limit of 1 liter getting confiscated at the airport is expected to improve the business of imported liquor for the players like GTCPL. Further, GoN with an objective to safeguard the balance of foreign exchange reserve had banned the import of alcoholic beverages until further notice.

Foreign exchange fluctuation risk

GTCPL imports liquor from various countries and distributes them in Nepal through dealers and key accounts. Payment to foreign suppliers is made in USD and hedging for the same is not exercised which exposes GTCPL to foreign currency fluctuation risk. Despite of foreign exchange gain of Rs. 7 Mn earned by company during FY19, GTCPL is still exposed to foreign exchange fluctuation risk evidenced by loss suffered during FY18 of Rs 5 Mn.

Competition from other brand of liquor

GTCPL's revenue mainly comes from sales of imported assorted spirit which mainly include premium whiskey of Johnnie Walker and vodka of Smirnoff. The price of Johnnie Walker whiskey is high thus only affordable by upper middle class and above consumers. GTCPL is exposed to competition from different local players who manufacture similar products domestically for both Whisky and Beer at lower price. Further, there is competition from other imported liquor brands in Nepal.

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.

About the Company

GTCPL is a private company, incorporated on November 30, 1998. It is an authorized exclusive distributor of Assorted Spirits (which include Whiskey, Vodka, Rum, Gin, brandy and Tequila) of Diageo Plc United Kingdom (UK) and its associate companies. The company is also distributor for wine from different countries, Beer of Heineken International and Bira91 of India for Nepal. It imports liquor products from various countries and distribute to dealers all around Nepal. The company has also entered into agreement with Beam Suntory Inc. as exclusive dealer of Beam Assorted Spirits from FY20.

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	1,798	1,798	2,003
PBILDT	112	106	113
PAT	64	39	49
Overall Gearing (times)	3.11	2.51	2.30
Interest coverage (times)	2.90	2.02	2.01

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	190.73	CARE-NP BBB- (Credit watch with negative implications)
Short Term Bank Facilities	Working Capital Limit	980.00	CARE-NP A3 (Credit watch with negative implications)
Short Term Bank Facilities	Non-Fund Based Limit	320.30	CARE-NP A3 (Credit watch with negative implications)
Total		1,491.03	