

**Rating Rationale**  
**Dabur Nepal Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	6,100.00	CARE-NP A1+ [A One Plus]	Reaffirmed
Short Term Bank Facilities (Proposed)	500.00	CARE-NP A1+ [A One Plus]	Reaffirmed
<b>Total Facilities</b>	<b>6,600.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of ‘CARE-NP A1+’ assigned to the short term bank facilities of Dabur Nepal Private Limited (DNPL).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the rating assigned to the bank facilities of DNPL factor in strength from its established track record of operations with strong brand equity and wide range of products in Nepal coupled with strong distribution network and experienced Directors/ Management in the related field. The rating also factors in strong financial profile characterized by healthy profitability and debt coverage indicators, however impacted in FY20 due to Covid-19 and high unutilized working capital limits. The rating also derives comfort from the strength and expertise derived from strong ultimate holding company Dabur India Limited. These strengths are partially offset by concentrated business on foods segment, exposure to the volatility in the raw material prices and volatile interest rates, fragmented industry with competition from both domestic and international players and exposure to regulatory risk. Ability of the company to maintain the profitability and scale up its operations and the impact of future capital expenditure plans on the capital structure of the company remain the key rating sensitivities.

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

With the outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period, sales of the company has been directly impacted in FY20. However, with government easing restriction for various activities, operations, revenue and profitability of the company is also expected to improve in FY21.

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

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Strengths**

#### ***Strength and expertise derived from strong ultimate holding company Dabur India Limited***

The holding company of DNPL is Dabur International Limited which holds 97.50% shares in DNPL. Dabur International is a wholly owned subsidiary of Dabur India Limited (DIL). DIL, ultimate holding company of DNPL, is one of India's leading fast-moving consumer goods (FMCG) manufacturers with revenues of over INR 65 Bn (during FY20, refers to the 12 months period ended March 31, 2020). Building on a legacy of quality and experience of over 135 years, DIL is world's leader in Ayurveda products with a portfolio of over 250 Herbal/ Ayurvedic products. DIL's FMCG portfolio includes nine power brands with distinct brand identities which account for more than 70% of its total sales – Vatika- personal care, Dabur Chyawanprash- flagship health supplement brand , Dabur Amla- Hair Oil, Réal - fruit juices/ beverages, Dabur Honey- healthcare, Dabur Red Paste, Dabur Lal Tail- Baby Massage Oil, Dabur Honitus- Ayurvedic medicine and Dabur Pudín Hara- Ayurvedic medicine. DIL's products also have large presence in the overseas markets and are available in over 100 countries across the globe. DIL owns research and development (R&D) center for extensive research and development to create products and solutions for sustaining DIL's and its group company's competitive advantage. Being a part of Dabur group, apart from benefits of DIL's extensive R&D, DNPL follows same policies and standard operating procedures (SOPs) which are made at group level.

#### ***Established track record with a strong distribution network***

DNPL has been in the business of FMCG products manufacturing in Nepal for 29 years. As one of the leading FMCG Companies in Nepal, DNPL has strong distribution network with more than 300 distributors catering to 1 lakh retail points across Nepal. An efficient supply chain management system, and prudent working capital management enables healthy operating efficiency.

#### ***Experienced Directors/ Management in the related field***

DNPL is a professionally managed company under the overall guidance of its Board of Directors (BoD). Mr. Rukma Shamsher Rana is the Chairman and Managing Director of the company. Mr. Rana has been director of DNPL since its establishment. He was Member of Parliament; Ambassador of Nepal to India and President of Nepal Olympic Committee. Mr. Harkirat Singh Bedi, director, looks after overall business operations of Nepal and has more than 18 years of experience in the field of sales and marketing within Dabur group. BoD of DNPL is supported by experienced management team.

#### ***Strong financial profile characterized by healthy profitability and debt coverage indicators, however impacted in FY20 due to Covid-19***

DNPL's gross revenue from sale of products witnessed a decline of 22% to Rs. 8,820 Mn in FY20 owing to impact of Covid-19 on the operations of the company which was significantly disrupted due to lockdown imposed by the GoN. With decline in gross sales, net sales of the company also declined by

21% in FY20 to Rs. 8,055 Mn as compared to growth of 3% in FY19. Due to decline in revenue, PBILDT of the company reduced by 35% in FY20 with reduced PBILDT margin and profitability. PBILDT margin got impacted due to lower volumes and high fixed expenses amid impact on sales due to lockdown during FY20.

The company continues to not avail any long term debt from any Bank/Financial Institutions and overall gearing ratio of the company remains low which has improved to 0.24x at the end of FY20 from 0.32x at the end of FY19. The company also has sizeable unutilized short term bank loan limits at the end of FY20. DNPL has healthy debt service coverage indicators as interest coverage ratio of the company stood at 20.30x in FY20 and Total debt to GCA continues to be low at 1.84x in FY20.

### ***Strong brand equity with wide range of products***

DNPL deals with brands such as Dabur, Real, Hajmola etc. which have strong brand recognition both locally and internationally. The brand Dabur has a very strong reputation, particularly in ayurvedic and herbal segment. These strengths have also helped DNPL in maintaining its market position despite competition from large international and domestic players. DNPL is manufacturing juice under brand name Real in about 40 variants in real, active and burst ranges. Home & Personal Care segment which includes brand like Vatika has strong brand presence for premium personal care products. Similarly, Health care segment of Dabur includes brands like Hajmola with strong brand recognition for digestives products in candy and tablets variants. These brands are household names and are preferred brands in their categories.

### ***Major exporter of the country***

DNPL is one of the contributors towards foreign trade of Nepal as one of the major exporters. DNPL exported goods worth Rs. 5,217 Mn during FY20 which constitutes 5.34% of total exports of Nepal and generated 59.15% of its gross revenue from exports during FY20. Considering the export business and volume of DNPL, it was awarded by numerous awards in the past like best taxpayer in the export business, commercially important person etc. by different government bodies.

### **Key Rating Weaknesses**

#### ***Concentrated business on foods segment***

Business of DNPL is concentrated on foods segments which has been contributing around 70% to the revenue over the years. Although the company is also in other FMCG products, like personal care, health care, digestives etc., the contribution is moderate in the total revenue of the company. However, in FY20, the contribution of food segment to total revenue stood at 60% as consumption of juices during the peak Covid-19 period had dropped and demand for Consumer Care Development products increased. Further, revenue of DNPL is concentrated on single customer i.e. DIL. DNPL exports its products, mainly juice and digestives products, to DIL. During FY20, DNPL generated 58.86% of its gross sale revenue from export sales to DIL, which accounts 99.51% of total export sales of DNPL.

***Volatility in the raw material cost***

The major raw materials of the company for the production of juices are pulp, concentrates and sugar. The prices of concentrates and pulp are highly volatile in nature and depends on availability of crops posing seasonality factor. Though, DNPL is procuring raw materials strategically depending on availability of crops to safeguard against the inflationary prices, due to perishable nature of raw materials stocking period is very low.

Further, GoN has increased import duty on sugar from 30% to 40% to support domestic sugar and had also imposed ban on imports of sugar from October 2018 to July 2019 which had impacted the raw material cost requiring DNPL to procure its sugar requirement locally at higher prices. The ability of the company to pass on the changes in raw material prices to the finished products without impacting the profitability of the company will be the key rating sensitivities.

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

FMCG industry has organized and unorganized players across segments. DNPL 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 manufacturing similar products and selling domestically. Similarly, the traders involved in the import/ trading of various global brands are the major competitors of DNPL in most of its segments.

***Exposure to regulatory risk***

GoN has formed and implemented different regulations and standards related to the safety of food in Nepal in order to protect health of public. Further, changes in policies, like ban in import of sugar by GoN have direct impact on the profitability of the company. However, GoN decision to ban import of energy drinks and flavoured synthetic drinks may help domestic foods business of DNPL for flavoured synthetic drinks segments. Ability to manage the impact of any regulatory changes by GoN would be the key rating sensitivities.

**About the Company**

Dabur Nepal Private Limited (DNPL) is a private limited company, established in 1989 and commenced its business operations since 1992. It is a step down subsidiary of Dabur India Limited (DIL), one of the leading Multi-National Company of India. DNPL is one of the leading manufacturers and exporter of the country and markets wide range of consumer goods like Fruit Juices/ Beverages, Chyawanprash, Glucose, Tooth Paste, Hair Oil, Digestive Tablets (Hajmola), Honey etc.

**Brief Financial Performance during last 3 years:**

(Rs. In Million)

For the year ended Mid July	FY18	FY19	FY20
	(Audited)		
Income from Operations	10,010	10,256	8,096
PBILD Margin (%)	14.21	13.82	11.40
Overall Gearing (times)	0.32	0.32	0.24
Interest coverage (times)	12.35	12.70	20.30
Current Ratio (times)	1.59	1.90	2.27
Total Debt/Gross Cash Accruals (times)	1.38	1.59	1.84

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**Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Working Capital Loans	5,600.00	CARE-NP A1+
Short Term Bank Facilities (Proposed)	Working Capital Loans	500.00	CARE-NP A1+
Short Term Bank Facilities	Letter of credit/ Bank guarantee	500.00	CARE-NP A1+
<b>Total</b>		<b>6,600.00</b>	