

## Global Trading Concern Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	73.70	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short-term Bank Facilities	1,400.30	CARE-NP A3 [A Three]	Reaffirmed
<b>Total Facilities</b>	<b>1,474.00</b> <b>[Rs. One Billion Four Hundred and Seventy-Four Million Only]</b>		

### *Details of instrument / facilities in Annexure-1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of 'CARE-NP BBB-' assigned to the long-term bank facilities and 'CARE-NP A3' assigned to the short-term bank facilities of Global Trading Concern Private Limited (GTCPL). The ratings have been removed from credit watch with negative implications upon lifting up of ban on the import of alcoholic beverages by Government of Nepal (GoN) as well as considering moderate liquidity profile of the company and its ability to withstand the implications of ongoing Covid-19 without impacting the debt servicing capability of the company.

### **Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of GTCPL continues to derive strength from long track record of operations along with established and diversified dealer network, strong promoters and experienced management team, authorised distributorship of multiple brands of liquor for Nepal. The ratings also factor in moderate financial profile marked by moderate profitability margins, capital structure and debt service coverage indicators along with comfortable liquidity profile supported by liquid investments in listed shares and increasing demand of liquor products in Nepal.

The ratings are, however, constrained by its working capital-intensive nature of operations, exposure to volatile interest rates. The ratings also factor 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 remain the key rating sensitivities. Furthermore, any change in the regulations/ government policies related to import of alcoholic beverages will remain the key monitorable aspect.*

### **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 involved in diversified businesses viz. trading, banking and finance, insurance, manufacturing etc. 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 last 20 years and looks after the day-to-day operations of the company. He is supported by experienced management team having relevant experience in the related field. The promoters of the company have also been infusing funds in the form of equity to support operations of the company.

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

***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. The company is also distributor for wine and beer of various reputed brands. GTCPL has entered into contract with Diageo Plc. and its associate companies as an exclusive distributor of Diageo for Johnnie Walker, VAT 69 and other whiskies, vodka and rum in Nepal. Company's major sales consist of assorted spirits of Diageo Plc which covered around 77% of sales of GTCL in FY20, which has further increased to 81% in 9MFY21. 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. Diageo Plc. has been the supplier of GTCPL since 1998. GTCPL is one of the largest distributors of imported alcohol in Nepal with 41 no. of exclusive sub-dealers covering 3600 number of outlets in FY20.

***Moderate financial profile marked by improvement in profitability margins, however declined sales***

Total revenue of the company declined in FY20 by ~12% to Rs. 1,769 Mn mainly due to impact of Covid-19 lowering the demand of various alcoholic beverages as well as GoN putting ban on import of various items which included alcoholic beverages. With decline in sales, PBILDT of the company also declined by ~8% in FY20; however, PBILDT margin improved in FY20 over previous year due to change in product mix and share from sales of premium products was higher which has higher margins. Improved in PBIDLT margin also led to improvement in PAT margin. During 9MFY21, GTCPL has booked total revenue of Rs. 1,618 Mn.

***Moderate capital structure and debt service coverage indicators***

Debt equity ratio of GTCPL continued to be moderate at 0.44x at the end of FY20 which improved from 0.52x at the end of FY20 on account of scheduled repayment of term loans. Overall gearing ratio remained moderate at 2.67x the end of FY20 which although deteriorated from 2.30x at the end of FY19. This deterioration was mainly due to higher utilization of working capital borrowings on the balance sheet date of FY20 to fund the increased working capital requirements of the company. Interest coverage ratio was moderate at 1.89x while Total Debt/Gross Cash Accruals was high at 17.57x in FY20.

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

GTCPL had an investment portfolio of ~Rs. 101 Mn at the end of FY20 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.

***Increasing demand of liquor products in Nepal***

During FY16, the total value of imported liquor (including taxes) was ~ Rs. 2.65 Bn which grew at a CAGR of ~9% to Rs. 3.70 Bn in FY20. This growth was impacted by import ban imposed by GoN during FY20 mainly due to the Covid-19. During 10 months ended FY21, the total value of imported liquor is at Rs. 2.24 Bn. This growth in liquor is on account of rise in household income, (which mainly comes from increasing remittance inflows) 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 high lead time for purchases and to ensure the regular supply to its customers. GTCPL's average inventory holding period remained at 113 days, average collection period remained at 61 days. The company normally has to make advance payments to its suppliers which led to low average creditors period at 2 days in FY20. Entailing all led to high operating cycle of 171 days in FY20 which increased from 117 days in FY19 mainly due to increase in inventory days. The working capital utilization of the company at the end of the month against the drawing power is moderate at 87.61% during the last 12 months ended on mid-April 2021.

##### ***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. In the budget for FY21-22, the government has increased excise duty for various beer and wine based on percentage of alcohol present. Further, GoN with an objective to safeguard the balance of foreign exchange reserve had banned the import of various items which included alcoholic beverages. These restrictions although being lifted up, still exposes GTCPL to various government policies related to liquors which may impact revenue of the company.

##### ***Foreign exchange fluctuation risk***

Almost all purchases by the company were invoiced in foreign convertible currency during FY20 (other than Nepalese and Indian Rupees), for which the company is exposed to the foreign exchange fluctuation risk. GTCPL does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees. Company incurred Rs. 15 Mn of foreign exchange fluctuation loss in FY20 which exposes company to foreign exchange fluctuation risk.

##### ***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.

#### **About the Company**

Global Trading Concern Private Limited (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 and Beer of Heineken International for Nepal. It imports liquor products from various countries and distribute to dealers and key accounts all around Nepal. The company has also entered into agreement with Beam Suntory Inc. as exclusive dealer of Beam Assorted Spirits from FY20.

## Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	1,802	2,014	1,769
PBILDT Margin (%)	5.81	6.16	6.48
Overall Gearing Ratio (times)	2.51	2.30	2.67
Interest Coverage (times)	2.00	2.18	1.89
Current Ratio (times)	1.10	1.14	1.05
Total Debt/Gross Cash Accruals (times)	16.90	15.00	17.57

A: Audited

## Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	73.70	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limits	900.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	500.30	CARE-NP A3
<b>Total</b>		<b>1,474.00</b>	

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### About CARE Ratings Nepal Limited:

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