

Life Care Distributors Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Short-term Bank Facilities	2,400.00 (Increased from Rs. 1,450.00 Mn)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	2,400.00 [Rs. Two Billion Four Hundred Million Only]		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A3' assigned to the short-term bank facilities of Life Care Distributors Private Limited (LCD).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of LCD continues to derive strength from experienced and resourceful promoters, established distribution network and its association with reputed brands. The rating also factors in growing scale of operations, moderate capital structure and debt coverage indicators of the company and satisfactory liquidity profile supported by investments in listed shares.

The rating is however constrained by low profitability margins, working capital intensive nature of operations, exposure to volatile interest rates and foreign exchange fluctuation risk. The rating also factors presence in competitive nature of industry.

Ability of the company to profitably scale up the operations and effective management of working capital with improvement in solvency position will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and Resourceful promoters

LCD has an operational track record of more than 8 years in import/ trading of fast-moving consumer goods (FMCG) in Nepal. LCD is managed by Mrs. Jamuna Agrawal and Mr. Saurav Garg. Mrs. Jamuna Agrawal is associated with company since inception and looks after the overall affairs of the company. She has an experience of over two decades in the import and trading through their association with company and in individual capacity. Mr. Saurav Garg is associated with company in the capacity of the managing director and has more than a decade of experience in FMCG business. The management team is supported by qualified and experienced professionals in their respective field.

Diversified distribution network and established brands

LCD 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. LCD is presently involved in supplying more than 100 varieties of products manufactured by around 5 FMCG companies with major contribution from products like Cadbury, Bournvita, Oreo, Ritz, Toblerone, Unilever's men grooming, hair care, oral care, personal hygiene, skin care, beverage, food, cooking essentials, cleaning agents, fabric care etc., which have strong brand recognition over different countries. For most of the products, the company is sole distributor in Nepal.

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

Moderate financial risk profile

For the period FY18-FY20 (FY20 refers to 12 months period ended mid-July, 2020, audited), LCD's total operating income grew from Rs. 1,939 Mn to Rs. 2,264 Mn reflecting a compounded annual growth rate of around 8%. The growth in sales was majorly due to increase in quantity sold upon addition of new brands in the product portfolio. The profitability margin of the company continues to remain on lower side owing to the trading nature of business where the value addition is inherently low. The profitability margins have been range bound in the last 3 financials years and PBIDLT margin stood at 4.88% in FY20.

Total debt of the company of reduced from Rs. 1,132 Mn as on mid-July, 2019 to Rs. 956 Mn as on mid-July, 2020 mainly due to prepayment of term loans and unsecured loans during FY20. The company sold a land parcel held as fixed assets and utilized the funds for repayment of loans. With decline in total debt coupled with improvement in networth due to plough back of profit to the business, overall gearing ratio of the company improved from 2.52x as on mid-July, 2019 to 2.01x as on mid-July, 2020. Though improved, it continued to remain moderately high.

Interest coverage ratio of the company remained moderate at 1.64x while total debt/Gross Cash Accruals deteriorated and remained high at 30.93x in FY20.

Interim performance during FY21: During 9MFY21 ended mid-April, 2021, LCD has already booked total revenue of Rs. 3,476 Mn and PBIDLT of Rs. 236 Mn.

Liquidity profile supported by liquid investments in listed shares

LCD had an investment portfolio of around Rs. 133 Mn as on mid-July, 2020. Most of the investments are in securities of different listed banks and financial institutions, insurance companies etc. which are readily marketable in nature and thereby lends liquidity support to the company at the time of stress.

Key Rating Weaknesses***High operating cycle***

The operations of the company are working capital intensive in nature as the company imports its products mainly from foreign countries and sells it in the domestic market. LCD's average inventory holding period as well as average collection period remained at ~2 to 3 months during FY20. Overall operating cycle of the company was around 147 days in FY20 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 12 months ending mid-June, 2021 was 81%.

Foreign exchange fluctuation risk

Around ~20-30% of the purchases by the company were invoiced in foreign currency during FY20, other than Nepalese and Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. The company is not having policy of hedging its foreign currency payable other than Indian Rupees. LCD has incurred foreign exchange fluctuation loss of Rs. 2 Mn during FY20.

Competition from both domestic and international players

The company is engaged in importing FMCG from various countries and selling the same in domestic market. LCD operates in the highly competitive 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.

About the Company

Life Care Distributors Private Limited (LCD) was registered as a private limited company in June 2011. LCD principally involves in import/ trading of FMCGs. Currently LCD is involved in supplying more than 110 varieties of products manufactured by 6 FMCG companies around the globe under more than 17 brands. For most of the products, the company is sole distributor in Nepal.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018	2019	2020	2021
	(12m, A)	(12m, A)	(12m, A)	(9m, UA)
Total Operating Income	1,939	2,025	2,264	3,476
PBILDT Margin (%)	5.28	5.66	4.88	6.78
Overall Gearing Ratio (times)	2.58	2.52	2.01	0.84
Interest Coverage (times)	1.81	1.69	1.64	6.67
Current Ratio (times)	0.98	1.01	1.01	1.20
Total Debt/Gross Cash Accruals (times)	22.68	18.49	30.93	3.14

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Short Term Bank Facilities	Fund Based Limits	600.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	1,800.00	CARE-NP A3
Total		2,400.00	

Contact Us

Analyst

Mr. Utsav Baral

Contact No.: +977-01-4012628

Email: utsav.baral@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai

Contact No.: +977-01-4012629

Email: shalini.sanghai@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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