

Dabur Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	6,600	CARE-NP A1+ [A One plus]	Reaffirmed
Total Facilities	6,600		

Details of instruments/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 strengths 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 and management in the related field. The rating also factors in strong financial profile of the company characterized by rebound in revenue during FY21 (FY refers to the twelve-month period ended mid-July) leading to improved profitability, comfortable capital structure and healthy debt coverage indicators. The rating also derives comfort from the strength and expertise derived from strong ultimate holding company Dabur India Limited (DIL). 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.

Going forward, the ability of the company to continue to scale up its operations while maintaining the profitability and debt service indicators will remain the key rating sensitivities. Any substantial debt funded capital expenditure impacting the overall financial risk profile of the company will also remain a key rating sensitivity.

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 95 Bn during FY21 (refers to the twelve-month period ended March 31, 2021). Building on a legacy of quality and experience of over 136 years, DIL is world's leader in Ayurveda products with a portfolio of over 250 Herbal/ Ayurvedic products. 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 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 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 30 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.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Robust financial risk profile characterized by comfortable capital structure and healthy debt coverage indicators

DNPL's capital structure continues to remain comfortable with robust debt coverage indicators. Amid improved operational performance during FY21, DNPL's credit metrics improved even further during the year with its overall gearing ratio improving to 0.18x at the end of FY21 (FY20: 0.24x). Sustained strong cash flow generation has helped the company continue to not avail any long-term debt. Its only debt remains working capital related short-term borrowings. Interest coverage ratio of the company improved to 47.35x in FY21 (FY20: 20.30x) and total debt to GCA improved substantially to 0.93x at the end of FY21 (FY20: 1.84x) on account of lower debt levels and higher GCA during the year. GCA for FY21 was Rs. 1,395 million, substantially higher than Rs. 782 Mn during FY20.

Recovery in sales and improved profitability during FY21, sustained growth during H1FY22

During FY21, operations of the company bounced back after some disruptions, particularly during the fourth quarter of FY20 on account of Covid-19 pandemic, which had led to gross sales decline of 22% year on year in FY20. The company gross revenue from sale of products rebounded during FY21 to Rs. 11,378 Mn with a y-o-y growth of 29%. This recovery in sales was backed by sustained demand for in-home consumption, relatively improved out-of-home consumption during the subsequent waves of the pandemic relative to the first wave, and the company's better positioning of its Health, Hygiene & the Immunity building portfolios. The Company saw strong growths across categories in the food segment led by fruit juices as well as non-food segment led by health supplements and oral care. Boosted by higher sales leading to better absorption of fixed cost, and improvements in the company's working capital, reduced interest cost and cost reduction in operations due to optimization activities, the company achieve around 300 bps improvement in PBILDT margin during FY21. PBILDT margin of the company improved to 14.39% in FY21 (FY20: 11.40%). Similarly, PAT margin of the company also improved to 9.48% during FY21 from 4.53% during FY21. Although volatility in raw material cost remains, the company is generally able to pass through the same. DNPL's revenue growth trend has sustained so far in FY22 as well, with the company reporting gross sales of around Rs. 7,000 million during H1FY22 (unaudited, refers to the six-month period ended mid-January 2022), which would annualize to a y-o-y growth rate of over 20% for FY22.

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 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's export sales grew 31% yoy in FY21 to Rs. 6,852 Mn, which constitutes 4.9% (FY20: 5.3%) of total exports of Nepal. DNPL generated around 60% of its gross revenue from exports in FY21 (FY20: 59%). Considering the export business and volume of DNPL, it was awarded 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., their contribution to the total revenues remains moderate. Further, revenue of DNPL is concentrated on single customer i.e. DIL. DNPL exports its products, mainly juice and digestives products majorly to DIL. During FY21, DNPL generated around 60% (FY20: 59%) of its gross sale revenue from export sales to DIL, which accounted for around 99% of total export sales of DNPL during FY21.

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 Government of Nepal (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 drinks. Ability to manage the impact of any regulatory changes by GoN would also remain a key rating sensitivity.

About the Company

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.

Financial Performance

(Rs. Million)

For the Period Ended Mid-July,	FY20	FY21
	(12m, A)	(12m, A)
Income from Operations	8,096	10,695
PBILDT Margin (%)	11.40	14.39
Overall Gearing (times)	0.24	0.18
Interest Coverage (times)	20.30	47.35
Total Debt/ Gross Cash Accruals (times)	1.84	0.93

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Working Capital Loans	5,600	CARE-NP A1+
Short Term Bank Facilities (Proposed)	Working Capital Loans	500	CARE-NP A1+
Short Term Bank Facilities	Letter of credit/ Bank guarantee	500	CARE-NP A1+
Total		6,600	

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About CARE Ratings Nepal Limited:

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The Unified Directives, 2078 issued by NRB has changed the validity of ratings to two years, however, in view of the SEBON regulations stating regular monitoring along with mandate agreement with the client which mentions annual detailed review of the rating assigned, CRNL continues to mention validity of the ratings as one year.