

Triveni Byapar Company Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	1,740.00 (Increased from Rs. 1,180 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,740.00 (One Thousand Seven Hundred Forty Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP A4' assigned to the short-term bank facilities of Triveni Byapar Company Private Limited (TBC).

Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TBC continues to be constrained by its leveraged capital structure with weak debt coverage indicators. The rating also factors in working capital intensive nature of operations, exposure to volatile interest rates, foreign exchange fluctuation risk and presence in a fragmented industry with competition from both domestic and international players.

The rating, however, derives strength from TBC's improved operational performance backed by substantial growth in scale and profitability during FY21 (audited, refers to the twelve-month period ended mid-July 2021) and established track record of operations along with strong promoters and experienced management team in the related field. The rating also factors in diversified distribution network with established brands and increasing demand for consumer electronic products in Nepal.

Going forward, the ability of the company to profitably scale up the operations and effective management of working capital with improvement in operating cycle and liquidity position of the company will remain the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure with weak debt coverage indicators

Total gearing ratio of the company was high at 3.98x at the end of FY21, deteriorating from 2.62x at the end of FY20. This was mainly on account of increase in working capital loans of TBC by around 79% year on year at the end of FY21. Consequently, total debt of the company increased to Rs.1,497 Mn at the end of FY21 from Rs.788 Mn at the end of FY20. However, TBC's interest coverage ratio improved to 3.09x during FY21 from below unity in FY20 aided majorly by higher PBILDT generation during the year, which increased to Rs.197 Mn during FY21 from Rs.27 Mn during FY20. Despite improved profitability leading to higher gross cash accrual in FY21, TBC's total debt/ GCA for FY21 remained high at 17.65x which was negative in FY20.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. The company imports its products from foreign countries mainly China, Korea, India etc and sells it in the domestic market. Debtor collection period of the company decreased from 120 days in FY20 to 63 days in FY21 majorly on account of improved debtor realization during the year, which was impacted by the pandemic in FY20. Similarly, the average inventory period of the company decreased to 139 days in FY21 from 167 days in FY20. Average creditor days of the company is low at 16 days as most of the goods are

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

imported through letter of credit at sight. Accordingly, overall operating cycle of the company, although improved to 186 days in FY21 from 265 days in FY20, remain stretched leading to higher dependence on borrowings for funding working capital requirements. Consequently, the average working capital utilization against the drawing power of the company for the twelve month period ended mid-January 2022 was around 90%. As on February 10, 2022, TBC had liquid investment of Rs. 275.37 Mn based on the market prices of securities traded on Nepal Stock Exchange Limited (NEPSE).

Foreign exchange fluctuation risk

Around 56% of the purchases by the company were invoiced in foreign convertible currency during FY21, other than Indian Rupees, for which the company is exposed to the foreign exchange fluctuation risk. TBC does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Indian Rupees. TBC had reported foreign exchange loss of Rs. 0.27 Mn in FY21 while it achieved Rs. 0.96 Mn of foreign exchange fluctuation gain during FY20.

Fragmented industry with competition from both domestic and international players

The company is engaged in import/ trading of consumer durable goods from various countries and selling it in the domestic market. TBC operates in a fragmented industry, as the company has to compete with several local players as well as other international players who are into the business of importing similar products from foreign countries and selling domestically. TBC's growth prospects are also limited by the presence of other distributors in the country for major brands such as Samsung and Panasonic coupled with availability of choices to customers in variety of other imported brands. Also, presence of domestic manufacturing industry in few of the consumer goods segment increases the competition to some extent.

Key Rating Strengths

Established track record of operations along with strong promoters and experienced management team in the related field

TBC derives strength from its strong promoter group belonging to the Sanghai business family. The business family is one of the largest business groups of Nepal involved in diversified business of banking, insurance, manufacturing, trading and other businesses. The promoters of company have experience of over two decades in importing and trading fast moving consumer goods. The company's board consist of single member, Mr. Shailesh Sanghai, who is the Managing Director of TBC and has an experience of around 10 years in the related business. He is supported by a team of qualified and experienced professionals to run the day-to-day operations of TBC.

Diversified distribution network with established brands

TBC is involved in import and trading of consumer household products of major companies like Samsung, Panasonic, and Sansui etc which have strong brand recognition over different countries. TBC is presently involved in supplying around 67 varieties of home appliances products manufactured by around 16 original equipment manufacturers around the globe. For products of Sansui, the company is sole distributor in Nepal although the agreements have non-exclusivity clause. For products of Samsung and Panasonic, TBC is one of the two dealers in Nepal; however, competition in pricing between the dealers is mitigated as the pricing is controlled by the suppliers. TBC has national presence reaching all parts of Nepal and covering all major towns and cities. Currently, TBC has around 815 dealers across all seven provinces of Nepal with highest number of dealers present in Kathmandu which is the main market of the company.

Improving financial risk profile marked by substantial growth in revenues and net profit in FY21

Total income of the company increased by 78% year on year (y-o-y) in FY21 to Rs. 2,686 Mn majorly on account of substantial increase in trading sales which increased by 110% y-o-y to Rs. 2,559 Mn. Manufacturing sales, which accounted for around 4% of total revenues in FY21, decreased by 62% y-o-y to Rs. 100 Mn in FY21. Increase sales volume coupled with improved price realization resulted in significant improvement in the company's profitability during FY21.

PBILDT margin improved by 554 bps to 7.32% during FY21. Backed by higher sales and improved profitability, TBC reported gross cash accruals of Rs. 85 Mn in FY21, as opposed to losses of Rs. 53 Mn in FY20. During H1FY22 (unaudited, refers to the six-month period ended mid-January 2022), the company has reported net sales of Rs. 1,988 Mn, which translates to an annualised growth of 49.48% over FY21.

Increasing demand for consumer electronic products in Nepal

During FY21 total value of imported electronic and electrical equipment was around Rs. 60 Bn. During 7MFY22 (seven month period ended mid-February 2022) the total value of imported electronic and electrical equipment was around Rs. 40 Bn, which has increased by around 17% y-o-y. This growth in demand for consumer electronic products has surged over FY21-H1FY22, boosted by higher demands for household electronics amid the covid-19 pandemic. The increased demand is also supported by the improved electricity supply in the country along with rise in household income, mainly from remittance inflows.

About the Company

TBC was incorporated on June 12, 2008 and is involved in trading of consumer goods of various international brands. The company gets various home appliances manufactured through OEM's from China from the last 10 years and sells it under its own brand "Yasuda".

Financial Performance

(Rs. Million)

For the Period Ended	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	2,010	1,506	2,686
PBILDT Margin (%)	6.30	1.78	7.32
Overall Gearing (times)	2.23	2.62	3.98
Interest Coverage (times)	1.47	0.29	3.09
Current Ratio (times)	1.27	1.23	1.16
Total Debt/ Gross Cash Accruals (times)	35.72	Negative	17.65

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	Fund Based Limits	1,170.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	570.00	CARE-NP A4 [A Four]
Total		1,740.00	

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