Life Care Distributors Private Limited

Ratings

Facility	Amount (Rs. in Million)	Rating[1]	Rating Action
Short Term Bank Facilities	1,650.00 (Decreased from 2,400.00)	**CARE-NP A3 [A Three]**	Reaffirmed
Total Facilities	**1,650.00**		

Details of 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 its experienced and resourceful promoters, established distribution network coupled with association with reputed brands. The ratings also factor in moderate capital structure and debt coverage indicators, improved financial risk profile marked by growing sales and expanding profitability margins in FY21 (Audited, refers to the twelve-month period ended mid-July 2021) albeit moderation likely in FY22, along with comfortable liquidity profile of the company supported by liquid investments in listed shares.

The rating is, however, constrained by LCD's working capital-intensive nature of operations, exposure to volatile interest rates, foreign exchange fluctuation risk and competitive nature of Fast Moving Consumer Goods (FMCG) trading industry. The rating also factors in LCD's exposure to regulatory risk and takes cognizance of the near-term challenges faced by the FMCG traders in Nepal, particularly due to the liquidity stress built up in the banking sector coupled with inflationary impact on prices potentially impacting demand prospects. However, the rating takes comfort from the fact that none of the products currently sold by LCD fall in the import restricted list announced by the Government of Nepal.

Going forward, the ability of the company to profitably scale up its operations on a sustainable basis while maintaining the capital structure shall be the key rating sensitivities. Furthermore, effective management of working capital with improvement in solvency position maintaining its relationship with its key suppliers will also act as 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 a decade in import / trading of FMCGs in Nepal. LCD is managed under the overall guidance of Mrs. Jamuna Agrawal and Mr. Saurav Garg. Mrs. Jamuna Agrawal is associated with the company since inception and looks after the overall affairs of the company. She has relevant experience of over two decades. Mr. Saurav Garg is the Managing Director and has more than a decade of experience in FMCG business. The management team is supported by a team of qualified and experienced professionals.

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 varieties of products manufactured by three FMCG companies with major contribution from products like Toblerone, Unilever's men grooming, hair care, oral care, personal hygiene, skin care, etc., which have strong brand recognition in Nepal. For most of these products, the company is the sole distributor in Nepal.

Improved financial profile in FY21, however, moderation likely in FY22

In FY21, the total operational income of the company increased by 76% to Rs. 4,003 Mn (vis-à-vis Rs. 2,264 Mn in FY20), boosted by increased demand for FMCG products after sluggish FY20 impacted by the first wave of the pandemic. Backed by increased scale, PBILDT margin of the company also improved to 6.52% in FY21 from 4.88% in FY20. Consequently, LCD booked net profit of Rs. 179 Mn in FY21 compared to Rs. 25 Mn in FY20.

The improved financial performance led to better debt service coverage indicators of the company in FY21. Interest coverage improved to 6.05x in FY21 from 1.64x in FY20. Similarly, overall gearing ratio also improved to 1.34x at the end of FY21 from 2.01x at the end of FY20 amid lower debt levels and accretion of profits to reserves.

However, during FY22 sales have been impacted by muted demand for various consumer products impacted by the ongoing liquidity crisis in the economy. Amid increased inflation and higher custom duty for imports, the prices of the FMCG products had been increasing, which has also impacted consumption to some extent. LCD's sales in FY22 are also impacted by the discontinuation of distribution of products from Mondelez India Foods Private Limited since December 2021. This would include products like Bournvita, Cadbury, and other chocolate related products contributing ~31% of total sales in FY21. Furthermore, sales are expected to remain sluggish in the near term amid increased price of goods at consumer level on account of government policy to increase LC margin on imports of certain FMCGs to 100%. However, overall financial risk profile of the company is likely to remain relatively steady, despite lower sales, aided by stable profitability and lower working capital requirement.

Liquidity profile supported by liquid investments in listed shares

Liquid investment of the company was Rs. 120 Mn at the end of FY21 compared to Rs. 133 Mn on FY20. These are mainly in the form of shares of the publicly listed companies and financial institutions. The investments are readily marketable in nature and lends liquidity cushion to the company.

Key Rating Weaknesses

Elongated operating cycle though improved

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. In FY21, total operating cycle improved to 89 days from 147 days in FY20. The improvement was mainly on account of a more normal business environment at the end of FY21 compared to FY20. Average inventory holding period improved to 44 days at the end of FY21 from 70 days at the end of FY20. Despite the improvement in FY21, the working capital cycle is likely to remain elongated over the near-term, particularly in a more challenging operating environment.

Foreign exchange fluctuation risk

A substantial portion of purchases (around 30-40% in FY21) are invoiced in foreign currency other than Nepalese and Indian Rupees for which the company is exposed to the fluctuation in foreign exchange rates. LCD doesn't undertake any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees, which exposes LCD to foreign exchange fluctuation risks. The company has the policy to pass on the fluctuation in cost to the consumers to maintain the bottom line.

Competitive nature of industry with presence of both domestic and international players

LCD is involved in import/ trading of FMCGs from various countries and selling them in the domestic market. LCD operates in the highly competitive 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 them domestically.

Exposure to regulatory risks

Trading of imported FMCG products in Nepal is exposed to regulatory risks due to change in government policy towards import of certain items and also on custom duty. In December 2021, Nepal Rastra Bank set a 100% cash margin to open letter of credit for the imports of various items including chocolates and certain cosmetic products. Furthermore, in order to provide impetus to the local FMCG manufacturing industry, Nepal Government in the budget presented for FY23, has increased import duty on most of the imported products to 15% from 5%. This follows various counter measures the GoN has been taking to curb outflow of foreign reserve of the country. As a result of increased custom duty and requirement of cent percent cash margin, imported products are available to the consumers at a higher price and could impact their demand, which could lead to increased pressure on the turnover and profitability of the company. However, the effect may be partially insulated as the products the company deals with are high value branded products of which replacement may not be easily available. Hence, overall demand is likely to sustain over the medium period.

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 100 varieties of products manufactured by 2 FMCG companies around the globe. For most of the products, the company is sole distributor in Nepal.

Brief financial performance of LCD is given below:

(Rs. Million)

For the year ended Mid-July	FY19 (Audited)	FY20 (Audited)	FY21 (Audited)
Income from Operations	2,025	2,264	4,003
PBILDT Margin (%)	5.66	4.88	6.52
Overall Gearing (times)	2.52	2.01	1.34
Interest Coverage (times)	1.69	1.64	6.05
Current Ratio (times)	1.01	1.01	1.06
Total Debt/Gross Cash Accruals (times)	18.49	30.93	3.38

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based/ Non- Fund Based	1,650.00	**CARE-NP A3**
Total		**1,650.00**	

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