Asian Distributors Private Limited (Revised)

Ratings

Facilities	Amount (Rs. in Million)	Rating[1]	Rating Action
Long Term Bank Facilities	25.14 (Decreased from 34.28)	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short-Term Bank Facilities	930.30 (Increased from 850.30)	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	**955.44**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB-' for the long-term bank facilities and 'CARE-NP A3 for the short-term bank facilities of Asian Distributors Private Limited (ADP).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ADP continues to derive strength from its long track record of operations, strong promoters and experienced management team, established distribution network coupled with association with reputed brands. The ratings also factor in moderate capital structure, improved financial risk profile marked by growing sales and expanding profitability margins along with comfortable liquidity profile of the company supported by liquid investments in listed shares.

The ratings are, however, constrained by its 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 ratings also factor in ADP'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 ratings take comfort from the fact that none of the products currently sold by ADP 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 while limiting the total debt and dividend pay-outs will also be a key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

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

ADPL derives strength from promoters being part of the Vishal Group, which has a strong presence in Nepal through various group entities engaged in trade, manufacturing, hospitality, insurance and banking. The promoters of the company have an experience of over two decades in importing and trading FMCG products. The company is currently managed by Mr. Ashish Kumar Agrawal and Mr. Aditya Kumar Agrawal. Mr. Ashish Kumar Agrawal is the Chairman & Managing Director and has been associated with the company for more than a decade. He looks after the overall affairs of the company. Mr. Aditya Kumar Agrawal is associated with the company in the capacity of Director and looks after business development & marketing related activities of the company. The promoters have also been infusing funds into the company in the form of equity to fund the growth of the company.

Established distribution network and association with established global brands

ADP has national presence reaching all parts of Nepal and covering all major towns and cities. ADP is presently involved in supplying varieties of products manufactured by several multinational FMCG companies, which have strong brand recognition

[1]Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

globally. For most of the products, the company is the sole distributor in Nepal and has stockiest/ sub-distributors spread across the country.

Improved financial risk profile marked by growing sales, improving profitability and debt coverage indicators

ADP reported total operating income (TOI) of Rs. 1,217 Mn in FY21 (Audited, refers to the twelve-month period ended mid-July 2021). PBILDT margin improved and stood at 9.23% aided by increased sales coupled with favourable product-mix. ADP's PAT margin was 7.69% in FY21. Furthermore, rationalization of working capital cycle of the company during FY21 resulted in lower utilization of working capital loans, which led to decrease in interest cost. Interest coverage of the company stood at 6.35x in and overall gearing ratio of 0.81x amid lower debt levels and accretion of profits to reserves.

The overall demand scenario for FMCGs improved in FY21 after the pandemic hit fourth quarter of FY20 as the economy slowly recovered, despite lingering impacts of the subsequent waves of the pandemic. Overall consumption and imports of FMCGs steadily increased in FY21 and continued into FY22. Backed by increased demand, ADL's reported TOI of Rs. 1,202 Mn in 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022). However, amid the likely challenges in both supply and demand side amid the current state of the country's economy and liquidity situation in the banking sector, the sustainability of the pace of growth achieved during 9MFY22 remains to be seen going forward and will remain critical from credit perspective.

Liquidity profile supported by liquid investments in listed shares

ADP had an investment portfolio of around Rs. 206 Mn at the end of FY21 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.

Key Rating Weakness

Working capital intensive nature of operations

Operations of ADP are working capital intensive in nature due to high lead time for purchases. The company needs to maintain adequate stock in order to ensure regular supply to its customers. Total operating cycle remained elongated at 135 days in FY21, albeit improving from 162 days in FY20 mainly on account of a more normal business environment at the end of FY21 compared to FY20, when the operations and the working capital levels were impacted by the first wave of the pandemic. Average inventory holding period improved to 77 days at the end of FY21 from 97 days at the end of FY20. Despite the improvement in FY21, the working capital cycle is likely to elongate during FY22 as the company's inventory levels are likely to be on the higher side. The company is looking at maintaining higher than normal inventory given the uncertainties surrounding the current import business in the country.

Foreign exchange fluctuation risk

A substantial portion of purchases are invoiced in foreign currency other than Nepalese and Indian Rupees for which the company is exposed to the fluctuation in foreign exchange rates. ADP does not undertake any hedging mechanism while importing trading items at foreign convertible currency other than Nepalese and Indian Rupees, which exposes ADP to foreign exchange fluctuation risk. The company has the policy to pass on the fluctuation cost to the consumers to maintain the bottom line.

Competition from both domestic and international players

The company is in importing and trading of FMCG from various countries and selling the same in domestic market. ADP 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.

Exposure to regulatory risk

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 like biscuits increased to 15% from 0%), cosmetic products (increased to 15% from 5%), chocolates (increased 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

Asian Distributors Private Limited (ADP) is a private company engaged in import/trading of major international food brands in Nepal since 1998. The operations of trading in FMCG products were earlier carried out in other entities which were later transferred to ADP after its registration as a private limited company on March 4, 2011.

Brief financial performance of ADP during last 3 years is given below:

For the Year ended Mid- July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	1,211	1,027	1,217
PBILDT Margin (%)	6.26	5.86	9.23
Overall Gearing (times)	1.39	1.22	0.81
Interest Coverage (times)	1.72	1.74	6.35
Current Ratio (times)	1.20	1.31	1.62
Total Debt/ Gross Cash Accruals (times)	11.39	12.16	3.02

A: Audited

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	25.14	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limit	610.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	320.30	CARE-NP A3
Total Facilities		**955.44**	

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About CARE Ratings Nepal Limited:
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Disclosure: Shareholders of Asian Distributors Private Limited are also amongst the shareholders of CARE Ratings Nepal Limited (CRNL). None of the shareholders of CRNL (Including shareholders of Asian Distributors Private Limited) are part of CRNL's rating committee and they do not participate in the rating process. And hence, they didn't have any role in assignment of credit rating of Asian Distributors Private Limited by CRNL.