

Global Trading Concern Private Limited ^(Revised)

Ratings

Facilities	Amount (Rs. in Million)	Rating ¹	Rating Action
Long Term Bank Facilities	151.21 (Increased from 73.70)	CARE-NP BBB- [Triple B Minus] (Credit watch with developing implications)	Reaffirmed and placed on credit watch with developing implications
Short-Term Bank Facilities	1,330.30 (Decreased from 1,400.30)	CARE-NP A3 [A Three] (Credit watch with developing implications)	Reaffirmed and placed on credit watch with developing implications
Total Facilities	1,481.51		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has placed the rating of 'CARE-NP BBB-' for the long-term bank facilities and 'CARE-NP A3' for the short-term bank facilities of Global Trading Concern Private Limited (GTCPL) on credit watch with developing implications.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GTCPL have been placed on credit watch with developing implications factoring in an uncertain operating environment for liquor trading companies in Nepal, over the near-term, following the restriction in imports of alcoholic beverages imposed by the Government of Nepal (GoN). In April 2022, GoN imposed restriction in imports of certain items, which included alcoholic beverages, till mid-July 2022, which has been further extended till August 30, 2022 to help curb outflow of foreign reserve. Amid rising imports coupled with muted remittance inflows during FY22, the GoN has announced several measures to restrict/discourage imports of certain non-essential items. Subsequently, the near term business prospects of the company are expected to be impacted by this supply constraint. Although the company currently has inventory which is likely to last till around September 2022, given the current state of affairs, continuation of the import restriction for a prolonged time beyond August 30, 2022 could materially impact the operational performance and the financial risk profiles of the liquor traders including GTCPL. Furthermore, even after the removal of the restriction, when that happens, smooth procurement will depend on the ability and willingness of the banking system to open new letters of credits. Amid the ongoing liquidity stress faced by the banking system coupled with the limited credit appetite of banks and financial institutions (BFIs) after a disproportionately high credit expansion over the last couple of years, opening of new letters of credit for imports, particularly for non-essential items, could remain a challenge, at least over the near-term. CRNL will resolve the rating watch once clarity emerges on the extent and scope of impact on GTCPL's business and its overall financial risk profile of the above measures.

The ratings continue to derive strength from GTCPL's long track record of operations along with established and diversified dealer network, strong promoters and experienced management team, authorised distributorship of multiple premium brands of liquor for Nepal, and improving financial performance of the company marked by growing sales and expanding profitability leading to better debt service coverage indicators. The ratings also take cognizance of GTCPL's comfortable liquidity profile supported by liquid investments in listed shares. The ratings, however, continue to remain constrained by GTCPL's working capital-intensive nature of operations, exposure to volatile interest rates, foreign exchange fluctuation risk and competition from other domestic as well as international liquor brands. The ratings also factor in GTCPL's exposure to regulatory risk related to the alcoholic beverage industry.

Going forward, the ability of the company to continue to profitably scale up the operations and effective management of working capital with improvement in solvency position remain the key rating sensitivities. Furthermore, any further policies of

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

the Government of Nepal regarding tightening the imports, which could impact the business profile of the company will also be a key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strong promoters and experienced management team in related field

GTCPL derives strength from its strong promoter group, being part of the Vishal Group of Companies which has a strong presence in Nepal through various group entities engaged in trade, manufacturing, hospitality, insurance and banking. The company is managed under the overall guidance of the company's board of directors who possess wide experience in various industries including trading. Mr. Ashish Kumar Agrawal is the Director in GTCPL from last 10 years and Mr. Vishal Agrawal, Director of GTCPL, is also the Director of Vishal Group since 2000. The day to day operations of the company is managed by Mr. Anil Kumar Agrawal, (CEO) who has experience of over 2 decades in GTCPL. He is supported by an experienced management team having relevant experience in the related field. The promoters of the company have also been infusing funds in the form of equity to support growth of the company.

Long track record of operation as authorised exclusive distributor of different types and brands of liquor

GTCPL started operations from November 1998 as an authorized distributor of assorted spirits of various several brands in Nepal. Currently GTCPL is engaged in distributorship of various assorted spirits which include Whiskey, Vodka, Rum, Gin, brandy and Tequila. Additionally, the company is also distributor for wine and beer of various other reputed brands. GTCPL is one of the largest distributors of imported alcohol in Nepal with sub-dealers spread across the country.

Improving financial performance marked by growing sales and improving profitability margins

GTCPL reported Total Operating Income (TOI) of Rs. 1,973 Mn in FY21 (Audited, refers to the twelve-month period ended mid-July 2021) backed by increased demand after sales were impacted in the previous fiscal year by the first wave of the covid-19 pandemic. PBILDT margin of the company was 8.39% in FY21, boosted by increased sales, while PAT margin was 6.83% in FY21. Amid sustained demand, GTCPL booked TOI of Rs. 2,431 Mn in 9MFY22 (Unaudited, refers to the nine-month period ended mid-April 2022).

The pace of growth the company exhibited during 9MFY22 is likely to be impeded by the ongoing restriction in imports of alcoholic beverages. Although overall financial risk profile of the company is likely to remain steady over the near-term, backed by inventory levels to last another couple of months' sales, prolonged continuation of the import restriction could adversely impact the company's financial health and will remain a key monitorable aspect.

Moderate capital structure and debt service coverage indicators

Debt equity ratio of GTCPL remained low at 0.36x at the end of FY21. Similarly, overall gearing ratio remained moderate at 1.98x backed by lower borrowings coupled with increased tangible networth amid accretion of profits to reserve. Similarly, debt service coverage indicators of the company were also moderate with interest coverage ratio of 3.89x and Total Debt/GCA of 6.81x in FY21.

Liquidity profile supported by liquid investments in listed shares

GTCPL had an investment portfolio of Rs. 291 Mn at the end of FY21 with most of the investments in shares of different listed banks and financial institutions and insurance companies which are readily marketable in nature to support the liquidity profile of the company.

Key Rating Weakness**Working capital intensive nature of operations**

Operations of GTCPL are working capital intensive in nature due to high lead time for purchases and to ensure the regular supply to its customers. GTCPL's average inventory holding period remained high at 111 days in FY21. Also, average collection period was 64 days in FY21 compared to 61 days in FY20. The company normally has to make advance payments to its suppliers which led to low average creditors period at 2 days in FY21. Entailing all led to high operating cycle of 173 days in FY21 which marginally increased from 171 days in FY20 mainly due to increased collection period.

Exposure to government policies related to liquors.

Nepal government has stringent restrictions and policies relating to import, sales and distribution of liquor to regulate alcohol products. Excise duty on beer, wines and spirits has been increasing over the period along with legally binding regulation on alcohol advertising and product placement. In addition to this, there is restriction to use alcohols on government sponsored programs and events.

Furthermore, the Government of Nepal (GoN) extended the restriction in import of various non-essential items listed under 10 categories, including alcoholic beverages, till August 30, 2022. Continuation of the imposition for a longer period can have a significantly adverse impact on the Nepalese alcohol trading industry and on the company's financial health. Hence, dealership business of GTCPL remains exposed to similar policies of the GoN/Central Bank. This will remain a key monitorable aspect.

Competition from other brands of liquor

GTCPL's revenue mainly comes from sales of imported assorted spirits which mainly include premium whiskey of Johnnie Walker and vodka of Smirnoff. The price of Johnnie Walker whiskey is high thus only affordable by upper middle class and above consumers. GTCPL is exposed to competition from different local players who manufacture similar products domestically for both Whisky and Beer at lower price. Further, there is competition from other imported liquor brands in Nepal as well. This is, however, mitigated to some extent by the loyal consumers premium alcoholic brands generally tend to have.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

About the Company

Global Trading Concern Private Limited (GTCPL) is a private company, incorporated on November 30, 1998. It is an authorized distributor of assorted spirits, wines, and beers from different countries for Nepal. It imports liquor products from various countries and distribute to dealers and key accounts all around Nepal.

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

	(Rs. Million)		
For the Year ended Mid- July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	2,014	1,769	1,973
PBILDT Margin (%)	6.16	6.48	8.39
Overall Gearing (times)	2.30	2.67	1.98
Interest Coverage (times)	2.18	1.89	3.89
Current Ratio (times)	1.14	1.05	1.22
Total Debt/ Gross Cash Accruals (times)	15.00	17.57	6.81

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	151.21	CARE-NP BBB- (Credit watch with developing implications)
Short Term Bank Facilities	Fund Based Limit	850.00	CARE-NP A3 (Credit watch with developing implications)
Short Term Bank Facilities	Non-Fund Based Limit	480.30	CARE-NP A3 (Credit watch with developing implications)
Total Facilities		1,481.51	

Contact us

Analyst Contact

Ms. Sarina Khakurel

977-01-4012628

sarina.khakurel@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012629

santosh.pudasaini@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977 9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Disclosure: Shareholders of Global Trading Concern Private Limited are also amongst the shareholders of CARE Ratings Nepal Limited (CRNL). None of the shareholders of CRNL (Including shareholders of Global Trading Concern 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 Global Trading Concern Private Limited by CRNL.