Arvind Emporium Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short Term Bank Facilities	1,080.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	1,080.00 (One Thousand and Eighty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE- NP A4+' assigned to the short term bank facilities of Arvind Emporium Private Limited (AEPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AEPL continues to be constrained by its leveraged capital structure with moderate debt service coverage indicators, working capital intensive nature of operations with elongated operating cycle, inherent risk associated with the trading business, low regulatory entry barriers and exposure to volatile interest rate. The rating, however, derives strengths from long track record of operations with resourceful and experienced promoter and established clientele, growing scale of operations although net profitability remains low amid increasing finance cost in FY22 (Audited, FY refers to the twelve-months period ending mid-July) and diversified product portfolio and operational synergies within group.

Going forward, the ability of AEPL to increase its scale of operations while improving its net profitability margin and maintaining its debt levels while improving its capital structure will be key rating sensitivities. Any elongation in operating cycle will also act as key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure with moderate debt service coverage indicators

AEPL's capital structure stood leveraged with overall gearing ratio, excluding unsecured loans from promoters, of 3.00x at the end of FY22 (FY21: 1.31x) owing to high working capital utilization to fund the growing scale of business coupled with elongated working capital cycle during FY22. Similarly, debt service coverage indicators of the company stood moderate in FY22, albeit on a declining trend year-on-year owing to increased debt levels coupled with higher interest rates leading to increased interest outgo during FY22. Interest coverage ratio declined to 2.09x in FY22 from 6.31x in FY21. Similarly, Total Debt to GCA of the company stood high at 17.71x in FY22, which increased from 6.17x in FY21. The ability of AEPL to manage growth in the operations while maintaining the profit margins and rationalization of its debt through efficient working capital management are crucial for the company to improve its financial risk profile.

Working capital intensive nature of operations with elongated operating cycle

Distributorship business has inherent high working capital intensity due to high inventory holding requirements and a relatively high credit period offered to customers leading to a long collection period. AEPL's net operational cycle was high at 144 days during FY22 (FY21: 80 days) with average inventory of 69 days which increased from 39 days in FY21 to cater the increasing sales. The company holds buffer inventory of around 1-2 months on account of trading of products which are imported from different countries namely India, Bhutan and Dubai etc. AEPL allows normal credit period of around 60 days to its customers. Average collection period, however, increased to 78 days in FY22 from 53 days in FY21 due to ongoing liquidity crisis resulting in some delays in collection from its customers. However, counter-party risk remains moderate as a major portion of sales are to

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

group associates with strong financial flexibility. Furthermore, the procurement is normally backed by letter of credit mostly at sight leading to low average payable period of 3 days for FY22. Consequently, the average working capital utilization of the company against the drawing power remained high at around 95% during the last 12 months ended on mid-January 2023.

Inherent risk associated with the trading business

The company is exposed to the risks associated with the trading nature of business like inherently low profitability margins, availability of the traded commodity in desired quantity and quality, etc. Though the company has been getting regular orders and also has an established business relationship with its customers, the company does not have any long-term sourcing and supply contracts with its suppliers and clients, respectively. The company is also exposed to the competition in imported trading business due to low entry barriers. Furthermore, the profitability of AEPL is also impacted by the volatility in price of raw materials like fuel, bitumen, etc. in the international market.

Low regulatory entry barriers

Low entry barriers for the products traded by AEPL exposes the company to risk of new players entering the segment. Furthermore, the risk of AEPL's customer resorting to direct imports also remains a concern. However, the same is mitigated to some extent on account of logistic issues and other challenges being faced in small quantity imports on individual basis. Also, AEPL being one of the largest established players in the industry, the risk of any competition from new entrants is reduced to a great extent.

Exposure to volatile interest rate

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 few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in increased base rates of BFIs in the first half of FY23. 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.

Key Rating Strengths

Long track record of operations with resourceful and experienced promoter and established clientele

AEPL has an operational track record of more than 3 decades in import and trading of various raw materials related to cement industry and construction sector. The company's promoter Mr. Surendra Kumar Goel has an experience of over 15 years in various industries and is also a director of HR Goel Group of Nepal which is involved in diversified trading and manufacturing business. He is also associated in various capacities with BFIs and Hydropower sectors.

Due to long track record of operations, the company has been able to build an established and reputed customer base for itself resulting into repeated orders, thereby securing the revenue profile of the company.

Growing scale of operations although net profitability remains minimal amid increasing finance cost

AEPL's financial performance was marked by an increasing scale of operations over the past two years (FY21-FY22). AEPL reported significant increase in Total Operating Income (TOI) by ~50.05% to Rs. 2,585Mn (FY21: Rs. 1,723Mn) which was supported by increase in sales of Bitumen and Fuel. Boosted by higher revenues, PBIDLT of the company increased with steady PBILDT margin at around 4.45%. However, PAT of the company remains minimal resulting in decrease in PAT margin to 1.44% compared to 2.30% during FY21. The relatively lower net margin was on account of increasing finance cost of the company. Consequently, the gross cash accruals earned by the company decreased to Rs. 42Mn from Rs. 45Mn in FY21. Although scale of operations of the company has been growing, material improvement in its credit risk profile going forward would hinge on its ability to expand net profitability and this will be crucial from credit perspective. Furthermore, During H1FY23, the total operating income of the company stood at around Rs. 1,495Mn.

Diversified product portfolio and operational synergies within group

The company deals with large number of construction companies and cement manufactures and the company has long term business relationship with its customers. Also, due to the long vintage of the promoters, AEPL has established strong relationship with reputed companies. The sales are made through distributors and traders. Furthermore, the wide product portfolio helps the company in diversifying the revenue profile, thereby mitigating the risk of adverse price movements in any one commodity.
AEPL has advantage of group synergies through its associate concerns involved in cement manufacturing where the products traded by AEPL is used as raw material. AEPL is in a competitive advantage as compared to its peers for secured supply of gypsum and fly ash and having regular orders for the same.

About the Company

Arvind Emporium Private Limited (AEPL) was initially incorporated in the year 1983 as a proprietorship firm and was later converted into a private company in September 2008. AEPL is involved in import and trading of raw materials related to cement industry and construction sector which includes Gypsum, Iron Ore, Bauxite, Fly Ash and Bitumen. The company is also an exclusive dealer of Nepal of MYK Schomburg Private Limited for construction chemicals and is also an authorized fuel distributor of Nepal Oil Corporation with its fuel pump located at Birgunj. AEPL is part of the HR Goel group of companies of Nepal and all the shares of the company are held by the promoter Mr. Surendra Kumar Goel.

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

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,089	1,723	2,585
PBILDT Margin (%)	3.78	4.57	4.45
Overall Gearing (times)	0.40	1.31	3.00
Interest coverage (times)	4.65	6.31	2.09
Current Ratio (times)	1.95	1.68	1.58
Total Debt to Gross Cash Accruals (times)	2.28	6.17	17.71

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	370.00	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	710.00	CARE-NP A4+ [A Four Plus]
Total Facilities		**1,080.00**	

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