The Dayal Trading Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**97.50**	**CARE-NP BB- [Double B Minus]**	**Assigned**
Short Term Bank Facilities	**802.50**	**CARE-NP A4 [A Four]**	**Assigned**
Total Facilities	**900.00 (Nine Hundred Million Only)**		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of The Dayal Trading Private Limited (TDTPL).

Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TDTPL are constrained by its highly leveraged capital structure with low gearing headroom and modest debt coverage indicators. The ratings also factor in working capital intensive nature of operations, exposure to volatile interest rates, regulatory risk, and competitive nature of industry with presence of both domestic and international players. The ratings, however, derive strength from TDTPL's established track record of operations and experienced promoters with experience in the related industry, association with established brand with majority market share in established segments, and diversified distribution network. The ratings also take into consideration moderate financial performance of the company over FY21-FY23, albeit with some moderation in scale in FY23 amid relatively low demand scenario. Demand outlook for products traded by TDTPL over the medium term remains stable, which augurs well for the company's business prospects.

Going forward, the ability of the company to profitably scale up its operations on a sustainable basis leading to improved debt service coverage indicators shall be the key rating sensitivities. Furthermore, effective management of working capital with improvement in solvency position and maintaining its relationship with its key supplier will also remain key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure with weak debt coverage indicators

TDTPL's capital structure is highly leveraged with overall gearing ratio of 3.86x at the end of FY23 (FY22: 4.01x) . A high gearing ratio with low headroom limits the financial flexibility of the company and could impede its ability to raise debt in future. Relatively higher debt levels vis-à-vis scale of operations led to high interest outgo of the company. Consequently, its debt service indicators as indicated by interest coverage ratio stood modest at 1.28x in FY23 (FY22: 1.30x). Furthermore, debt protection metrics also stood highly elevated marked by total debt/ GCA stood at 34.55x at the end of FY23 as overall debt levels remain substantially high compared to the corresponding cash accruals of the company.

Working capital intensive nature of operations

The operations of TDTPL are working capital intensive in nature. The company imports its products from India, Bangladesh and sells in the domestic market. TDTPL is into wholesale trading and the collection period of the company remains at a level of around two to three months, as the company supplies its products and realization of the sales happens in due

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

course of time. Furthermore, average collection period increased substantially to 129 days in FY23 (FY22: 77 days) as stretched liquidity in the economy affected collections from customers. The average inventory period of the company remains around 2 months as it has to maintain sufficient inventory in order to cater to the needs of the customers. Procurements is mainly in the form of imports and credit period provided by the supplier is 75 days against Letter of Credit (LC). Average inventory days stood moderate at 90 days in FY23 (FY22: 52 days). Average creditor days was 57 days in FY23 (FY22: 14 days). Consequently, TDTPL's net operating cycle stood elongated at 162 days in FY23 (FY22: 116 days) leading to higher dependence on borrowings for funding working capital requirements.

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

TDTPL is involved in import/ trading of FMCG products from foreign countries and selling them in the domestic market. TDTPL 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 risk

Trading of imported FMCG products in Nepal is exposed to regulatory risks due to frequent changes in government policy towards import of certain items and also on custom/import duty. In December 2021, Nepal Rastra Bank set 50-100% cash margin requirements to open LC for the imports of various items including certain items of TDTPL which was later discontinued by government from December 2022. This was counter measures from GoN to curb outflow of foreign reserve of the country. Furthermore, coconut oil which is one of the most traded items of TDTPL are prone to both custom and excise duty ranging from 14-15% and also attracts Value Added Tax (VAT). Such requirement of high cash margin coupled with high duties on imported products result into products being available to the consumers at a higher price which impacted demand of product during FY23 and could have similar impact in future, which could lead to increased pressure on the turnover and profitability of the company.

Exposure to volatile interest rate

The company's interest rates are based on 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Key Rating Strengths

Established track record of operations and experienced promoters

TDTPL has an operational track record of over three decades in import/ trading of FMCG in Nepal. Previously, it was proprietorship firm and was converted into private limited company on November 06, 2012. The company started it business with distributorship of CabinKare products. However, for the past 12 years, the company is sole distributor of Marico Limited products in Nepal. Mr. Rajib Shah is single shareholder of the company. Mr. Rajib Shah has been solely engaged in business over more than two decades and he along with his family members are actively involved in the boards of other sister concerns.

Association with well-established brand along with diversified distribution network

TDTPL is authorised distributor of Marico Limited products in Nepal. The company has been distributing all products of Marico Limited in Nepal, which includes marketing and distribution of consumer products including edible oils, hair oils and other cosmetic products under inter alia popular brand names such as 'Parachute', 'Saffola', 'Nihar', 'Livon', 'Set Wet jel' etc, which have strong brand recognition in India and Nepal. The agreements of distributorship with the company are normally renewed in every 2 years. TDTPL has national presence reaching all parts of Nepal and covering all major towns and cities with 83 dealers as on September end, 2023. Major sales of the company have been derived from Parachute Oil, Nihar Oil, Livon Sirum and Safolla Gold for the past three years.

Moderate financial performance trend over the years, albeit slight moderation in scale in FY23

The scale of operations of the company was on increasing trend on year-on year basis till FY22. During FY19-22, the total operating income (TOI) increased at CAGR of 10.23%. However, attributed to changes in policies made by central bank related to imports of goods coupled with decrease in overall domestic consumption during FY23 resulted into decrease in TOI by 26% y-o-y to Rs. 817 Mn during FY23 (FY22: Rs. 1,097 Mn). PBILDT margin of the company however increased from 4.19% in FY22 to 8.83% in FY23 mainly on account of other income related to secondary schemes coupled with decrease in selling and distribution expenses. PAT increased to Rs. 7 Mn in FY23 (FY22: Rs. 2 Mn) backed by increase in PBILDT margin however same was offset by increase in interest expenses owing to increase in working capital loans coupled with increase in overall base rates.

About the Company

The Dayal Trading Private Limited (TDTPL) is a private limited company incorporated on November 06, 2012 and promoted by Mr. Rajib Shah. TDTPL is principally involved in import/ trading of Fast-Moving Consumer Goods (FMCG).

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

(Rs. Million)

For the Period Ended	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	964	1,097	817
PBILDT Margin (%)	4.20	4.19	8.83
Overall Gearing (times)	2.95	4.01	3.86
Interest Coverage (times)	1.61	1.30	1.28
Current Ratio (times)	5.23	23.13	3.03
Total Debt/ Gross Cash Accruals (times)	25.29	53.55	34.55

A: Audited, UA: Unaudited

Annexure 1: Details of the Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Fund Based Limit	97.50	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	267.50	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	300.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Proposed Loan	235.00	CARE-NP A4 [A Four]
Total Facilities		**900.00**	

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