

Subha Shingal International Private Limited (SSI): [ICRANP] LB+/ [ICRANP] A4 (Assigned)

October 23, 2019

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term; fund-based limits	258.68	[ICRANP] LB+ (Assigned)
Short-term; fund-based limits	303.20	[ICRANP] A4 (Assigned)
Short-term; non fund-based limits	104.00	[ICRANP] A4 (Assigned)
Total	665.88	

* Instrument details are provided in Annexure-1.

Rating action

ICRA Nepal has assigned the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the NPR 258.68-million long-term loans of Subha Shingal International Private Limited (SSI). ICRA Nepal has also assigned the short-term rating of [ICRANP]A4 (pronounced ICRA NP A four) to the NPR 303.20-million fund-based and NPR 104-million non-fund-based limits of SSI.

Rationale

The assigned rating factors in the long track record of SSI (operating since 1992) and its experienced promoter group. The rating also factors in the healthy pace of sales growth maintained by SSI in recent years (CAGR 23% between FY2016 and FY2019), its diversified product portfolio, diversified supplier base and a good customer profile. Major proportion of SSI's sales comes from the product lines, wherein the company has sole distributorship. This remains a positive for the future sustainability of the revenue. Hotels and retail shopping centres, the two major customer segments for SSI, are witnessing a rise in number which remains a positive for SSI's demand outlook.

The ratings are, however, constrained by SSI's small scale of operations and consequently lower scale economies. Coupled with moderate operating profit margins, it results in moderate cash flows for the company. Despite being in the fast-moving consumer goods (FMCG) business, SSI has high debtor days because of its concentrated customer profile, which affects its negotiating power with the customers. Since the company deals in a wide range of products from different suppliers, the inventory days of the company also remain on the higher side. This increases the working capital intensity for the business which affects the liquidity. At the same time, the company has undertaken a debt-funded capex for the construction of its corporate office-cum-warehouse complex, which is unlikely to significantly aid its revenue profile over the near term. As such, SSI is likely to remain under liquidity pressure and its moderate cash flows are likely to remain stretched to cover the debt-related obligations over the next one to two years. High debtor days and relatively unsecured debtor also remains a rating concern. Also, the market remains fragmented with low entry barriers, which makes the competitive landscape unpredictable.

Key rating drivers

Credit strengths

Long track record of established sales channel and experienced promoters – Incorporated in 1992, SSI is among the established players in the import and trading of FMCG products in Nepal. The promoters have been involved in this sector for the last 25 years and are experienced with good traction with the supplier and the local market. The promoters have

also developed good rapport with the local customers given their established sales channels with ~50 distributors for general trade and direct relations for the institutional sales.

B2B sales model with good customer profile and positive demand outlook – SSI’s customers can be divided into two major verticals. Institutional sales (including the sales to hotels, cafeteria) accounts for ~40% of the sales and modern (or general) trade (sales to departmental stores, supermarkets) which accounts for ~60% of the sales. SSI’s clientele includes reputed five-star hotel properties, popular cafeterias, chain retail-stores, etc. which remains a comfort against debtor risks. SSI’s sales grew at a good pace in recent years with higher demand witnessed from the modern (general) trade segment. This is also expected to lower the customer concentration going forward. The demand outlook also remains positive, given the rise in the number of hotel properties as well as the rising trend of the modern trade outlets that has replaced the traditional grocery shops. The change from traditional grocery shops to modern trade outlets (minimarts, supermarkets, etc) offers more visibility to SSI’s products and remains a positive for their future demand.

Multiple product lines and established supplier relation – SSI has been dealing with over 20 different foreign brands like Foster Clarks, Arla, Divella, Fragata, etc. which produce relatively high-end grocery products. The product lines are also well diversified. A major part of SSI’s sales (~70-75% in the last two years) comes from products for which SSI is the sole distributor for Nepal. This remains a positive for the future revenue sustainability.

Credit challenges

Weak financial profile - The financial profile of SSI remains weak, given its small scale of operations, relatively high debt burden and modest cash accruals, as reflected in TD/TNW of ~2.1 times, TD/OPBDITA¹ of ~7.7 times and NCA/TD¹ of ~3%. The company has undertaken a debt-funded capex for construction of the corporate office-cum-warehouse complex which is expected to be completed towards the end of FY2020. This will further increase its debt burden and repayment obligations, as the repayment on the term loans starts from H2 FY2020. Coupled with the prevailing high interest rate regime SSI’s cash flows are likely to remain stretched to cover the debt obligations.

Tight liquidity position – SSI ran high debtor days of ~133 in FY2019 with equally high inventory days of ~96 for the year. High debtor days is partly a result of SSI’s concentrated customer profile, which affects its negotiation power while high inventory days is the result of its wide product portfolio comprising multiple suppliers. This increases the working capital intensity for SSI and affects liquidity. SSI’s liquidity profile also remains moderate because of the moderate profitability. Coupled with a higher outflow of debt obligations from FY2020, the liquidity situation could remain stretched for SSI, which could necessitate a fresh fund injection into the company.

Concentrated customer profile – ~1/3rd of the total sales of SSI in FY2019 was accounted for by its top 10 customers highlighting SSI’s concentrated customer profile. Although the customer profile remains good with reputed businesses as its clientele, the unsecured nature of the debtors still poses a risk. Also, the concentrated customer profile of SSI gives the customers an upper hand in the negotiation with the company, which partly explains its high debtor days. However, with the rise in the proportion of the general trade portfolio, customer concentration of SSI can be expected to improve going forward.

Absence of the long-term exclusive arrangement with suppliers – Although the goods are imported as per the terms of the agreement with the suppliers, the agreements are not long term and exclusive. This exposes the company to the risk arising from the discontinuation of the relationship by its major supplier brand or company.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

¹ TD-total debt, OPBDITA-Operating profit before depreciation interest tax and amortization, NCA-net cash accruals

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Subha Shingal International Private Limited (SSI), established as a proprietorship firm in 1992 and later converted into a private limited company in May 2016, is an importer and trader of FMCG products. The company supplies these products in a B2B model, to hotels, restaurants and retail stores and serves as a one-stop solution for groceries and consumables.

The company is the authorised sole importer of brands/companies like Fragata-Spain (olives and olive oils), Selbourne-Malaysia (chocolate products), Foster Clarks-Malta (instant juice powder, mayonnaise), Dongxing-China (hotel room amenities), etc. and also acts as an aggregator for other local and foreign brands. Through contract manufacturing, SSI has also been producing and selling products of its own brand of products under the brand Bhanbhori.

SSI is a family-owned venture where the entire stake is held by Mr. Sunil Kumar Bansal (~34% stake), his brother Mr. Sunny Bansal (34%) and his wife Mrs. Poonam Kumari Goenka (32%).

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Operating Income-OI (NPR Million)	370.30	498.97	570.93	693.63
OPBDITA/OI (%)	5.39%	6.34%	8.09%	9.85%
Total Debt/Tangible Net Worth TNW (times)	2.60	0.81	1.56	2.10
Total Outside Liabilities/ TNW (times)	3.04	1.02	1.82	2.24
Total Debt/OPBDITA (times)	11.72	5.67	8.05	7.70
Interest Coverage (times)	1.65	2.42	2.10	1.38
Debt service coverage ratio (times)	1.45	2.09	1.84	1.28
NWC/OI	46%	49%	58%	53%

Source: Company data

Annexure-1: Instrument Details

Instrument	Limit (NPR in Million)	Ratings
Long-term limits		
Long term; fund-based limits (Term Loan)	258.68	[ICRANP] LB+ (Assigned)
Total long-term limits (A)	258.68	
Short-term limits		
Short term; fund-based limits (Overdraft)	152.20	[ICRANP] A4 (Assigned)
Short term; fund-based limits (TR loan)	60.00	[ICRANP] A4 (Assigned)
Short term; fund-based limits (Short term loan)	91.00	[ICRANP] A4 (Assigned)
Short term; non-fund-based limits (LC)	90.00	[ICRANP] A4 (Assigned)
Short term; fund-based limits (TR loan, within LC limits)	(16.0)	[ICRANP] A4 (Assigned)
Short term; non-fund-based limits (Bank Guarantee)	14.00	[ICRANP] A4 (Assigned)
Total fund-based (B)	407.20	
Grand total (A+B)	665.88	

Analyst Contacts:

Mr. Kishor Prasad Bimali, (Tel No. +977-1-4419910/20)

kishor@icranepal.com

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)

sailesh@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)

barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies. The international credit rating agency, Moody's Investors Service, is ICRA's largest shareholder.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone:+977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents