

Asian Paints (Nepal) Private Limited: [ICRANP] A1+ assigned

June 25, 2020

Summary of rated instruments

Instrument*	Rated Amount (NPR Million)	Rating Action
Short-term loans; non-fund based	350	[ICRANP] A1+; assigned
Short-term loans; fund-based	300	[ICRANP] A1+; assigned
Total	650	

* Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned the short-term rating of [ICRANP] A1+ (pronounced ICRA NP A one plus) to the short-term loans (including non-fund-based limits) of Asian Paints (Nepal) Private Limited (Asian Paints).

Rationale

The rating assignment factors in the Asian Paints' established track record, robust operational profile, and strong market presence, given its status as one of the oldest and the largest paint manufacturing units operating in Nepal. The rating also factors in the company's strong financial profile characterised by very low gearing and high cash reserves leading to strong liquidity position. ICRA Nepal also takes comfort from the company's strong profitability margins with operating margins of ~18% in FY2019. The net margins also remained good at ~14%, supported to an extent by sizeable interest income on its bank deposits. Given the healthy internal accruals and surplus liquidity, the usage of funded facilities usually remains nominal. Hence, debt coverage metrics remain healthy with interest cover of ~204 times and total debt/OPBDITA of 0.14 times for FY2019. Though sales is likely to dip to an extent in FY2020 and subsequent year due to the impact of the coronavirus, the debt service indicators are expected to remain fairly strong. The rating also considers the company's strong promoter profile with ~53% stake held by Asian Paints Limited of India¹. The parent company's leading presence in the industry, along with the strong brand image, experienced board/management profile support the company's incremental operational profile.

These strengths are slightly offset by Asian Paints' susceptibility to volatility in raw material prices and low pricing flexibility, given the presence of multiple large and small players in the industry. The company's margins are also exposed to forex risks during raw material sourcing. Amid the expected economic slowdown due to the pandemic, the company's demand growth momentum also remains to be seen. Its net worth position is strong with ~98% share of retained earnings as of mid-March 2020. Hence, any sizeable dividend outflow and/or any steep decline in operating and financial risk profile could have a bearing on the assigned rating.

Key rating drivers

Credit strengths

Robust operational profile and long track record – The company operates one of the largest paint manufacturing units in Nepal with an installed capacity of 50,000 metric tonnes per annum (MTPA). This, along with the increasing capacity utilisation (75% in H1 FY2020 as against 49% in FY2017), garners it with sizeable scale economies and supports its leading position in the market. The company also has an established track record of operations in the industry (since 1983), which provides additional comfort.

¹ The parent company is rated at AAA/stable and A1+ by CRISIL, India.

Strong promoter profile and experienced directors/management – The company is a part of the Asian Paints Group (~53% stake through Asian Paints Limited, India), which operates in 15 countries and sells products in over 65 countries, making it one of the largest paint manufacturing companies in the world. The Group’s extensive track record in the industry along with strong brand image and the company’s experienced board/management are likely to help it in maintaining a modest business performance going forward.

Healthy revenue growth and sizeable revenue base – Given the good demand outlook, Asian Paints was able to report healthy revenue growth of ~24% in the last three fiscals, resulting in sizeable revenue base (~NPR 6.2 billion) in FY2019. Though the revenue is expected to dip in FY2020 due to the impact of the pandemic, the company’s good brand presence, wide product portfolio and network of dealers is likely to provide support in the later years.

Strong profitability and robust capitalisation – The company’s operating margins have remained largely stable at ~18-19% in the last few years, despite increasing competition. The net margins also remain much healthier at ~14% in FY2019, supported to an extent by the sizeable interest income from its bank balances. This, coupled with the company’s low gearing (0.05 times as on mid-July 2019), resulted in strong debt coverage indicators with an interest cover of ~204 times and total debt/OPBDITA of 0.14 times in FY2019. The coverage indicators are expected to remain high, mainly because of the healthy margins and sizeable internal accruals.

Superior liquidity – Asian Paints has retained a major chunk of its profits over the years, leading to sizeable net worth base (NPR 3.66 billion as of mid-March 2020; ~98% of this being retained earnings). The healthy internal accruals have gradually increased the company’s cash reserves which stood at ~NPR 2.61 billion as on same date (including short-term FDs of ~NPR 2 billion). This provides it with significant financial flexibility to tide over a limited period of demand constraints like the present. Additionally, with the superior liquidity position, the company rarely avails fund-based working capital limits.

Low working capital intensity – The company’s debtor days generally remain low at ~20 days in recent periods, while the creditor days were higher at ~40-60 days due to global sourcing of raw materials at the Group level. With the reduction in the inventory-holding period in recent times, the working capital intensity (NWC/OI) remains low at ~4% in FY2019. However, debtors are largely unsecured, which remains an area of concern.

Credit challenges

Economic slowdown due to Covid-19 pandemic could prove to be a challenge – The elongated lockdowns in the last few months would impact the revenue performance for FY2020. Additionally, the ongoing pandemic is likely to slow down the economic activities over the near to medium term. The demand growth outlook in the developed scenario and the company’s ability to maintain or improve its operation level and the market share would remain a key monitorable.

Rising competition in the industry – The paint industry in Nepal is characterised by multiple large and small players, which could have a bearing on the company’s pricing flexibility going forward. Also, its sales concentration to the top 20 customers in 8M FY2020 remains slightly high at ~17%. Any shift of the dealers to competing brands could impact its revenues to an extent.

Vulnerability of profitability to raw material price volatility – The company’s margins would remain dependent upon volatility in raw material prices as seen in recent years. Additionally, unfavourable exchange rate fluctuations might further impact the profitability as the forex exposures are largely unhedged. However, by virtue of its affiliation with the Asian Paints Group, the company has been able to secure similar pricing and credit terms as enjoyed by other subsidiaries of the parent.

Risk of regulatory changes – The paint industry in Nepal is insulated from cheaper imports with duty safeguards and a substantial freight cost involved in the import of paints. Any changes in Government policies could have a bearing on the performance of the industry players. Any other regulatory changes affecting raw material prices and availability could also impact the overall industry.

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

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in May 1983, Asian Paints (Nepal) Private Limited is involved in the production and selling of paints with the current installed capacity of 50,000 MTPA. The company is a subsidiary of the Asian Paints Limited of India with ~53% stake, followed by Rabi Associates, India (~9%) and the rest by 27 shareholders (~38%). Its factory is located at the Hetauda Industrial estate in Makwanpur District. The company currently manufactures various paints (such as cement, emulsion, distemper, knifing paste, solvent, and prime undercoat) under 44 different brands registered in the name of its parent company.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	8M FY2020 (Provisional)
Operating income-OI (NPR million)	4,137	5,347	6,167	4,570
OPBDITA/OI (%)	20%	18%	18%	19%
Total debt/Tangible net-worth-TNW (times)	-	-	0.05	-
Total outside liabilities/ TNW (times)	0.48	0.46	0.45	0.42
Total debt/OPBDITA (times)	-	-	0.14	-
Interest coverage (times)	253.15	204.18	204.05	65.42*
Net-working capital/OI (%)	1%	4%	4%	-2%

Source: Company data

* Including interest expenses characterised under IFRS-16: Leases; excluding the same, interest cover was ~330X.

Annexure-1: Instrument details

Instrument	Limit (Amount in NPR Million)	Ratings
Non-fund based facilities, short term		
Letter of credit (LC) – Existing	350	[ICRANP] A1+; Assigned
Letter of credit (LC) – Existing (within funded limits)	(200)	[ICRANP] A1+; Assigned
Letter of credit (LC) – Proposed (within funded limits)	(100)	[ICRANP] A1+; Assigned
Bank guarantee (within funded and non-funded limits)	(85)	[ICRANP] A1+; Assigned
Total non-fund based (A)	350	
Fund-based short-term loans		
Cash Credit/ Trust Receipt Loans (existing)	150	[ICRANP] A1+; Assigned
Cash Credit/ Trust Receipt Loans (proposed)	100	[ICRANP] A1+; Assigned
Overdraft/Trust Receipt loans	50	[ICRANP] A1+; Assigned
Overdraft (within non-funded limits)	(42)	[ICRANP] A1+; Assigned
Short term loans (within non-funded limits)	(30)	[ICRANP] A1+; Assigned
Demand loans (within funded limits)	(150)	[ICRANP] A1+; Assigned
Total fund-based short-term loans (B)	300	
Grand total (A+B)	650	

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About ICRA Nepal Limited

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