

Kathmandu Marketing and Trading House Private Limited: [ICRANP] A4+ assigned

October 12, 2020

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Short-term; fund-based limits	405.0	[ICRANP]A4+; assigned
Short-term; non-fund-based limits	655.0	
Total	1,060.0	

* Instrument details are provided in [Annexure-1](#).

Rating action

ICRA Nepal has assigned the short-term rating of [ICRANP]A4+ (pronounced ICRA NP A four plus) to the NPR 405 million fund-based limits and the NPR 655 million non-fund-based limits of Kathmandu Marketing and Trading House Private Limited (KMPL).

Rationale

The assigned rating factors in the long track record of KMPL (operating since 1992) and its experienced promoter group. The rating also factors in the positive demand outlook for KMPL, given the growing consumption spending in Nepal and good product profile of KMPL - related to strong brands such as Reckitt Benckiser and Colgate Palmolive. The strong brand recall of KMPL's product and strong portfolio of health and hygiene-related products is expected to support the growth and profitability prospects in the backdrop of the ongoing Covid-19 pandemic. The rating also derives comfort from the established sales channel of KMPL (diversified across over 200 distributors) and factors in the improvement in profitability and debt coverage ratios in FY2020, mainly because of the decline in discretionary sales and promotion expenses. However, its sustainability remains to be seen.

The rating is, however, constrained by moderate to weak liquidity of KMPL, which stems from the company's working capital intensive nature of business and low cash cushion available to it, given its history of moderate profitability and large dividend outflow in past¹. This increases the company's dependence on external bank financing, which is reflected in the high gearing level of 2.4 times, with TD/OPBDITA² of 3.6 times and interest coverage of 1.9 times for FY2020. The stretched liquidity position is also evident from the overutilization of working capital by company in FY2019 and FY2020-end, which leaves no headroom to absorb any liquidity shocks that may arise. Weak liquidity is also evident from the modest current ratio of 1.1 times in FY2020. The ratings also remain constrained by the intensely competitive FMCG³ trading landscape, the low entry barriers, and the absence of long-term dealership agreements between the foreign suppliers of these brands and the domestic importers-cum-traders like KMPL.

Key rating drivers

Credit strengths

Long track record and experienced promoters – Incorporated in 1992, KMPL 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

¹ Dividend of NPR 40 million

² TD – Total debt, OPBDITA – Operating profit before depreciation, interest tax and amortisation

³ Fast Moving Consumer Goods

are highly experienced. The company has been dealing with Reckitt Benckiser India (Reckitt) and Colgate Palmolive India (Colgate) for over the last two decades and have developed a good traction with the suppliers and distributors, which remains a comfort.

Established brands and diversified product range – KMPL imports and distributes products related to Reckitt & Colgate. Products related to these brands accounted for ~95% of its sales in FY2020 (93% in FY2018) with the remaining sales coming from other brands like Bikano, Savannah & Tiffany. The company deals in more than 600 variants of over 100 different products across these brands, leading to a diversified product portfolio. Products related to Reckitt (like Dettol, Harpic, Lizol, etc), Colgate (Colgate dental cream, toothbrush, etc), Bikano (Bhujija, namkeen, etc) are household names and enjoy strong brand recognition in Nepal.

Established sales channel - The company has an established supply chain comprising over 200 distributors across the country. The sales remain fairly diversified across its customers with the top ten customers accounting for ~35% of its sales in FY2020.

Credit challenges

Moderate financial profile – KMPL has a leveraged capital structure with a debt-equity ratio of 2.4 times in FY2020. Reliance upon bank finance remains high vis-à-vis the operating income, as reflected by TD/OPBDITA of 3.6 times in FY2020. Furthermore, the total outside liability to total net worth (TOL/TNW) ratio remains relatively high, at 4 times as of mid-July 2020. However, this is improved from the gearing of 3.7 times, TOL/TNW of 5.3 times and TD/OPBDITA of ~7.2 times in FY2019. The interest coverage for the company remains modest at 1.9 times in FY2020, despite improvement over 1.2 times in FY2019.

Weak current ratio amid tight liquidity position – KMPL's current ratio has remained modest at ~1.1 times for the last three fiscals ending FY2020, indicating a moderate to weak liquidity position on a sustained basis. This stems from KMPL's history of low-to-moderate profitability, one-off large dividend withdrawals in FY2018 and a relatively longer cash conversion cycle, arising from high debtor and inventory days. The company has overutilized its working capital drawing power as of FY2019 and FY2020 end, which results in low to no cushion available to absorb probable liquidity shocks. This diminishes its ability to meet its obligations, including those towards bank debts during the period of business disruption.

Absence of long-term and exclusive import agreement with suppliers – At present, KMPL is the only national importer and distributor for Reckitt and Colgate products in Nepal. However, the transaction between KMPL and its major suppliers (viz. Reckitt and Colgate) is being conducted under the conditions of a short-term, non-exclusive distributorship agreement. Discontinuation of the agreement and/or appointment of an additional importer/distributor by the suppliers for the Nepal region could have an impact on the margins and the overall financial indicators of KMPL.

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

Kathmandu Marketing and Trading House Private Limited (KMPL) is the national importer and distributor of fast-moving-consumer (FMCG) goods. The company deals in processed foods, toiletries, cosmetics, over-the-counter (OTC)-medications related to foreign brands, mainly Colgate-Palmolive, Reckitt Benckiser, Bikano, Tiffany and Savannah, among others. The company was established as a proprietorship firm in 1992 and was converted into a private company in 2004.

The entire equity stake in KMPL is held by three individuals viz. Mr. Ballabh Raj Sigdel (36%) and his brothers - Mr. Bijay Raj Sigdel (15%) and Mr. Sameer Bikram Thapa (49%). Mr. Ballabh Raj Sigdel is the Executive Chairman and oversees the day-to-day operations of the company.

Key financial indicators:

Amount in NPR million	Audited			Provisional
	FY2017	FY2018	FY2019	FY2020
Operating Income-OI	1,984.6	2,227.3	2,512.9	2,641.5
OPBDITA ⁴ /OI (%)	2.1%	1.8%	2.7%	4.2%
Total debt/Tangible net worth-TNW (times)	1.9	3.2	3.7	2.4
Total Outside Liabilities/ TNW (times)	3.0	5.5	5.3	4.0
Total Debt/OPBDITA (times)	6.7	9.1	7.2	3.6
Interest Coverage (times)	2.6	1.3	1.2	1.9
NWC ⁵ /OI (%)	16%	18%	21%	18%
Current Ratio	1.2	1.1	1.2	1.1

Source: Company data

Annexure-1: Instrument Details

Instrument	Limit (NPR in Million)	Ratings
Short-term; fund based (Overdraft)	20.0	[ICRANP] A4+; assigned
Short-term; fund based (Trust Receipts/Import Loan/Ad hoc loan)	385.0	
Short-term; non-fund based (Letter of Credit)	655.0	
Grand total	1,060.0	

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⁴ Operating profit before depreciation, interest, tax and amortization

⁵ Net working capital intensity

About ICRA Nepal Limited:

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