

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

May 3, 2021

Summary of rated instruments:

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

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

Rating action

ICRA Nepal has reaffirmed 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 reaffirmed 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 ratings continue to remain suppressed by SSI's weak financial profile characterised by high gearing, weak debt coverage indicators and high working capital intensity, as reflected in the FY2020 financial numbers. Ratings concern also arise from SSI's small scale of operations and consequently lower scale economies, which, coupled with moderate operating profit margins, 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 of 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 debts also remain a rating concern. Also, the market remains fragmented with low entry barriers, which makes the competitive landscape unpredictable.

Nonetheless, the ratings factor in SSI's long track record (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; albeit YoY contraction of 22% in FY2020), 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.

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 two-and-a-half decades and are experienced with good traction with the supplier and the local market. The promoters have also developed a good rapport with the local customers in general trade (catering to the shopping marts, grocery shops, etc.) and institutional sales (mainly hotels and cafeterias) segment, which remains positive to the incremental business growth of the company.

B2B sales model with good customer profile and positive demand outlook – SSI’s customers fall under two categories- wherein institutional sales (including the sales to hotels, cafeteria) accounted for ~30% of the sales and modern (or general trade (sales to departmental stores, supermarkets) accounted for ~70% of the sales during 9mFY2020. SSI’s clientele includes reputed starred hotel properties, popular cafeterias, chain retail-stores, etc. which remain 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 which remains a positive from the diversification perspective. 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 ~2.4 times, TD/OPBDITA¹ of 13.5 times and NCA/TD¹ of ~2% for FY2020. Moreover, the operating environment deteriorated in the last 12-18 months because of the ongoing Covid crisis which has led to revenue contraction, a stretched working capital cycle and weak profitability as well as debt coverage indicators for the company.

Decline in revenues due to impact of Covid-19 – Given the effect of the Covid-19 pandemic, SSI witnessed ~25% decline in revenues in FY2020 against ~22% growth in FY2019. With pandemic-linked lockdown and curb on economic activities, the sales in the last four months of FY2020 shrunk by more than 50%, compared to the same period in FY2019. Similarly, amid the ongoing impact of Covid-19, the sales during 9mFY2021 also remained 20% lower than the sales during 9mFY2020. The long-term continuation of the declining revenue trend could further impact the overall financial profile of SSI.

Tight liquidity position – SSI ran high debtor days of ~170 in FY2020 with equally high inventory days of ~150 for the year (vs. 130 and 90 days respectively in FY2019). 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. Additionally, the recent increase in FY2020 was due to Covid-19 impact on the debtor recovery and inventory liquidation. Moderate profitability and high working capital intensity has weakened SSI’s liquidity profile. Moreover, the repayment on the bank loans for building construction has also begun from H2 FY2020, further adding up to the liquidity stress.

Concentrated customer profile – ~Nearly 45% of the total sales of SSI in FY2020 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

¹ TD-total debt, OPBDITA-Operating profit before depreciation interest tax and amortization, NCA-net cash accruals
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of SSI gives the customers an upper hand in the negotiation with the company, which partly explains its high debtor days. The risk remains further pronounced in the current Covid situation where the credit profile of the institutional debtors (hotels and cafés) operating in the tourism sector has significantly deteriorated. 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.

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 Bhanbhor.

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

Particulars	FY2018	FY2019	FY2020
	Audited		
Operating Income-OI (NPR Million)	570.9	697.4	544.0
OPBDITA/OI (%)	8.1%	9.6%	8.8%
Total Debt/Tangible Net Worth TNW (times)	1.6	2.0	2.4
Total Outside Liabilities/ TNW (times)	1.8	2.4	2.8
Total Debt/OPBDITA (times)	8.0	7.8	13.5
Interest Coverage (times)	2.1	2.3	1.4
Debt service coverage ratio (times)	1.8	1.9	1.1
NWC/OI	58%	49%	73%

Source: Company data

Annexure-1: Instrument Details

Instrument	Last rated limits (NPR in million)	Current rated Limit (NPR in Million)	Ratings
Long-term limits			
Long term; fund-based limits (Term Loan)	258.68	258.68	[ICRANP] LB+ (Reaffirmed)
Total long-term limits (A)	258.68	258.68	
Short-term limits			

Instrument	Last rated limits (NPR in million)	Current rated Limit (NPR in Million)	Ratings
Short term; fund-based limits (Overdraft)	152.20	152.20	[ICRANP] A4 (Reaffirmed)
Short term; fund-based limits (TR loan)	60.00	60.00	[ICRANP] A4 (Reaffirmed)
Short term; fund-based limits (Short term loan)	91.00	91.00	[ICRANP] A4 (Reaffirmed)
Short term; non-fund-based limits (LC)	90.00	90.00	[ICRANP] A4 (Reaffirmed)
Short term; fund-based limits (TR loan, within LC limits)	(16.0)	(16.0)	[ICRANP] A4 (Reaffirmed)
Short term; non-fund-based limits (Bank Guarantee)	14.00	14.00	[ICRANP] A4 (Reaffirmed)
Total fund-based (B)	407.20	407.20	
Grand total (A+B)	665.88	665.88	

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About ICRA Nepal Limited:

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