

Bhat-Bhateni Supermarket and Departmental Store Private Limited: Ratings reaffirmed

October 16, 2023

Summary of rating action

Rated limit*	Last rated amount (NPR Million)	Current rated amount (NPR Million)	Rating Action
Long term limits	5,258.17	5,258.17	[ICRANP] LBB; reaffirmed
Short term limits	7,612.50	7,612.50	[ICRANP] A4; reaffirmed
Total	12,870.67	12,870.67	

*Limit details are provided in [Annexure-1](#);

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the long-term loans of Bhat-Bhateni Supermarket and Departmental Store Private Limited (BBSM or the company). ICRA Nepal has also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loan limits of BBSM.

Rationale

The ratings continue to factor in BBSM's established track record and its experienced promoters and management team. BBSM runs the largest chain of supermarket/department stores in Nepal with strong traction among the consumers and suppliers. Nepal's growing urbanization and the company's network expansion drive in the last few years has translated into a steady growth in revenues for BBSM (revenue rose at a CAGR ~14% during the last 5 years ending FY2023) and the resulting growth in economies of scale has translated into better operating profit margin for the company. The rating also positively takes note of the reduced dividend outflow from FY2022 profits (with similar outflow planned out of FY2023 profit), which remains a positive amid sizeable debt-funded capex being undertaken by the company.

However, despite recent improvement, BBSM's short-term liquidity profile continues to remain stretched amid the asset-liability maturity (ALM) mismatch and utilization of short-term working capital debt as well as internal accruals in network expansion. BBSM added 6 new outlets during FY2022 and FY2023, while 3 more are planned to be commissioned by FY2024 end, bringing the total number of outlets to 27. Although the company has increased the proportion of long-term debt in its borrowing mix against the past capex, it is yet to tie up the same for the capex planned for FY2024. At the same time, the principal repayment obligations for BBSM for FY2024 is sizeable while the interest obligations on the borrowings have also increased in recent quarters amid the high interest rate environment. All these are likely to stretch BBSM's short-term liquidity and debt coverage metrics for FY2024 as well. As BBSM continues to overutilize its working capital drawing power in FY2023 (despite the improvement over FY2022 levels), its ability to withstand the near-term liquidity stress remains low.

Going forward, BBSM's ability to improve its ALM position by tying up funds in line with the nature of investments will remain the key rating sensitivity. Moreover, its ability to maintain the revenue and profitability trajectory will also remain among the key rating monitorable.

Key rating drivers

Credit strengths

Established track record, experienced promoters and management team – BBSM was established in 1992 and is one of the oldest and the largest player in the supermarket/departmental store segments in Nepal. The promoters have been associated in the business since 1984, before the legal incorporation of BBSM. BBSM's highly experienced promoters and its professional management team remains a credit positive.

One of the largest players in retail segment with strategic locations and favourable economies of scale – BBSM operates the largest chain of supermarket in the country, through promoter/company owned premises that are strategically located across major urban centres of the country. Over the years, BBSM has gained strong traction with suppliers and customers. BBSM remains one of the major modern-trade sales point for many products consumed in the nation, particularly in the cities. This gives the company an edge in acquiring new suppliers, which remains a positive for BBSM's long-term prospects.

Good revenue growth and progressive profit margins – BBSM has expanded its network across the country in the last 2-3 years setting up new stores in all major urban centres of the country in addition to the strong presence inside the Kathmandu valley (the capital region of Nepal). The company's sales revenue has been growing at a healthy pace commensurate with the setting up of new stores in different parts of the country, which underscores its good competitive positioning pan-Nepal. The growth has led to a gradual improvement in the economies of scale which is reflected in the progressive operating profit margin of the company. The stabilization of the newly set up stores across the country is likely to further benefit the company's scale and profitability.

Credit challenges

ALM mismatch and short-term liquidity pressures due to continuous capex – As of FY2023 end, BBSM had 24 operational outlets across Nepal which is expected to increase to 27 by the end of FY2024 (vs 22 outlets as at FY2022 end and 18 outlets as at FY2021 end). The company has made large capex investment in store expansion using both short-term and long-term debts along with the internal accruals which has created a drain in the company's liquidity. BBSM has increased the proportion of long-term debt against the capex, bridging the ALM gap to some extent till FY2023. However, the long-term debt against the capex planned for FY2024 has not been tied up yet which is likely to put pressure on the short-term liquidity over the near term. Although reduced dividend outflow in FY2023 (out of FY2022 profits) is a positive, the company is likely to take some time to build a liquidity cushion. Also, BBSM's working capital loan utilization as of FY2023 end remains above the drawing power, which offers no immediate headroom.

High principal repayment obligations and high interest rate environment could stretch debt coverage indicators – Although BBSM's overall gearing level remains low, the long-term debt repayment remains aggressive with sizeable principal repayment slated for FY2024. This coupled with the recent increase in debt and high-interest rate environment is likely to stretch the DSCR metrics. This could necessitate some form of short-term liquidity support either through fresh borrowings or promoter support.

Competition and underdeveloped customer spending trend in rural/semi-rural Nepal – BBSM is exposed to competition from various unorganised-sector players and other local stores. The e-commerce trend also remains a long-term concern for the company. Although BBSM has a proven track record in urban areas (Kathmandu, Pokhara, and Chitwan), its success in the nation's other semi-urban and metropolitan areas is yet to be seen.

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](#)

Links to the last rating rationale:

[Bhat-Bhateni Supermarket and Departmental Store Private Limited Fresh BLR Rationale March 2022](#)

About the company

Bhat-Bhateni Supermarket and Departmental Store Private Limited (BBSM), established in 1992, is one of the oldest and well-established supermarket chain in Nepal dealing in a variety of household consumption goods. The company has been expanding its outlets base. In end-FY2023, BBSM operated 24 outlets and the company has recently commissioned 2 more outlets in Q1FY2024 and expects to commence 1 more outlet soon, leading to a total outlet base of 27 units, by the end of FY2024. BBSM is owned in the ratio of 60:40 by Mr. Min Bahadur Gurung and his spouse Mrs. Sabitri Ghale Gurung.

Key financial indicators

Amount in NPR million	Audited	Audited	Audited	Audited	Unaudited
	FY2019	FY2020	FY2021	FY2022	FY2023
Operating Income (OI; NPR Million)	17,996	19,362	19,997	26,930	29,700
OPBDITA/OI (%)	10.30%	10.46%	10.69%	10.90%	12.53%
Total Debt/Tangible Net Worth-TNW (times)	1.60	1.83	1.48	1.59	1.44
Total Outside Liabilities/ TNW (times)	2.80	2.73	2.15	3.11	2.68
Total Debt/OPBDITA (times)	3.21	3.76	4.08	3.52	2.95
Interest Coverage (times)	3.61	3.89	4.11	4.18	2.95
DSCR (times)	0.91	1.31	1.51	0.86	1.29
Net Working Capital/OI (%)	14.3%	17.5%	18.3%	8.4%	14.3%
Current Ratio (times)	1.0	0.9	0.8	0.7	0.9

Source: Company Data

Annexure-1: Instrument details

Instrument	Last rated amount (NPR Million)	Current rated amount (NPR Million)	Rating Action
Long term Loans	5,258.17	5,258.17	[ICRANP] LBB; reaffirmed
Short term Loans; funded limits	4,127.50	4,127.50	[ICRANP] A4; reaffirmed
Short term loans; non-funded limits	3,485.00	3,485.00	[ICRANP] A4; reaffirmed
Total	12,870.67	12,870.67	

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About ICRA Nepal Limited:

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