Yetichem Distributors Private Limited: Ratings reaffirmed

February 26, 2024

Summary of rating action

Instrument*(Amount in NPR million)	Last rated amount	Current rated amount	Rating Action
Fund-based; long-term loans	0.44	204.60	[ICRANP] LBB+; reaffirmed
Fund based; short-term loans	300.00	100.00	[ICRANP] A4+; reaffirmed
Non-fund based; short term loans	450.00	448.00	
Total	**750.44**	**752.60**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has reaffirmed long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L double B plus) assigned to the long-term loan limits of Yetichem Distributors Private Limited (Yetichem or the company). ICRA Nepal has also reaffirmed the short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) assigned to the company's short term loan limits.

Rationale

The ratings reaffirmation continues to factor in Yetichem's extensive operational track record (since 2001), experienced promoters, and their established traction with various customers and suppliers within as well as outside Nepal. The ratings also factor in Yetichem's healthy revenue profile with CAGR of ~8% over the last four years ending FY2023 and its stable profit margins. The company holds super distributorship for the products of various foreign pharmaceutical companies for Nepal, and imports a wide range of products related to chronic diseases such as diabetes, tuberculosis, etc. Positive demand outlook for the chronic medication segment and Yetichem's wide product range remain positives for its medium-term business growth. The ratings also factor in the company's adequate debt coverage indicators (ICR of ~3 times and DSCR of above 2 times) in the last two years ending FY2023, despite the rise in debt level in FY23 and spike in interest rates.

The ratings are, however, constrained by Yetichem's increase in working capital intensity (NWC/OI of ~37% during FY2023 vs. ~31% during FY2022), because of sustained short-term advances by Yetichem to sister units in FY2023 along with rise and debtor recovery days and inventory holding days. This has increased the company's reliance on bank loans. The company's incremental liquidity, gearing and debt coverage indicators will depend on the company's ability to recover such advances. Rating concerns also arise from the overutilized working capital drawing power of Yetichem as of mid-July 2023. Rating also remains constrained by the concentrated customer profile (~44% of FY2023 sales made to its top 10 customers) and unsecured nature of debtors, which could give rise to receivable risk. Additionally, rating concerns emanate from Yetichem's relatively small scale of operations, which supresses its profitability profile amid the lack of economies. Rating concerns also arises from the fragmented Nepalese pharmaceutical market, characterised by multiple large manufacturers as well as traders and low entry barriers into the pharmaceutical trading segment. At the same time, the distributorship rights held by Yetichem are (mostly) non-exclusive in nature, which remains a concern for the long-term stability of its business. Moreover, supplier risk, forex fluctuation and regulatory risks remain key rating concerns.

Going forward, the company's ability to recover the advance, streamline its working capital intensity thereby improving its liquidity and gearing while maintaining its debt coverage metrices will remain key rating sensitivity.

Key rating drivers

Credit strengths

Established track record of operations and experienced promoters – Yetichem has an adequate track record of operations in the Nepalese pharmaceutical industry and has established relationships with various large-scale foreign and domestic medicine manufacturers/suppliers. The company also has an established distribution network comprising of dealers and customers across Nepal. Incorporated in 2001 as part of the Yetichem Group, the company has achieved healthy business growth over the years supported by established supply chain network, non-cyclical business of chronic medication, wide product portfolio, and experienced management and promoters.

Healthy revenue profile with stable profit margins – Yetichem has registered healthy growth over the years with a 4-year CAGR ending FY2023 at ~8%; contributed by equal growth along regular sales as well as tender-based sales (notwithstanding a decline in tender based sales during FY2022). Established traction with suppliers and customers as well as specialisation in the chronic medication segment also remains a comfort for future revenue growth. Good brand recall of the products imported by Yetichem, good demand for the products and fixed profit margin determined by the suppliers is likely to help in gradual improvement of the company's financials as it generates growth and economies of scale, going forward.

Adequate debt coverage indicators and comfortable gearing – Yetichem's coverage indicators remained adequate to service regular debt obligations with ICR 2.9 times during FY2023 (above 2.5 times between FY2019 to FY2022), while DSCR remained above 2.3 times during the same period (above 2 times between FY2019 to FY2022). Increasing business revenue along with stable margins helped Yetichem maintain satisfactory debt coverage levels in FY2023, despite the rise in debt level and increase in interest rates amid liquidity crisis in Nepalese banking sector.

Credit challenges

Concentrated customer profile and unsecured debtors – Around 44% of Yetichem's total sales in FY2023 was driven by its top 10 customers highlighting the company's concentrated customer profile. Customer concentration remains high given the company's sizeable tender-based sales (~40% of total sales in FY2023). Although the customer profile remains healthy with reputed Government hospital and NGOs as its clientele, the unsecured nature of its debtors remains a rating concern. Given the small scale of operations and moderate profit margins, any write-off of debtors could significantly erode the profitability profile. Similarly, any event leading to discontinuation of its tender-based sales may have a significant bearing on the company's incremental revenue profile, cashflows and its debt servicing ability.

Stretched working capital profile – Yetichem's working capital remained stretched with net working capital/operating income (NWC/OI) of ~37% as on mid-July 2023 (vs. ~31% as on mid-July 2022) amid continuation of sizeable short-term advance to its sister units as on mid-July 2023 along with increased debtor recovery and increased inventory holding period as on mid-July 2023. The surge in working capital intensity has increased Yetichem's reliance on bank loans for working capital financing. Sustained short term advance to sister units, going forward, could stretch the liquidity position and increase the debt burden of the company. Furthermore, Yetichem has overutilized the working capital drawing power as on mid-July 2023, which limits its ability to withstand any further liquidity shocks. Therefore, the incremental liquidity profile of the company will depend upon the timely recovery of debtors and advances. The general moderation in sales during 6MFY2024, induced by demand slowdown in economic activities and intense competition in the market also remains a challenge to incremental liquidity profile.

High competition and supplier risk – The Nepalese pharmaceutical industry already comprises of large number of players[1] across manufacturing and trading sector. Low entry barriers for new players and the fragmented nature of the market also aggravates competition in the pharmaceutical sector. This risk is accentuated by the lack of exclusivity in the distributorship rights agreement between Yetichem and (most of) its supplier pharmaceutical companies.

[1] *As per the Department of Drug Administration (DDA) of Nepal, there are 123 registered medicine importers and 128 domestic manufacturers in Nepal as on 29th September 2022.*

Exposure towards supply chain, forex, and regulatory risk – Yetichem is completely dependent upon finished medicines procured from various manufacturers and suppliers across various countries, which exposes it to supply chain disruption risk. Any bottlenecks in the supply chain due to various circumstances can affect the company's revenue profile. The company also procures substantial number of medicines from abroad in various currencies (e.g., US Dollars and Swiss Franc). As these purchases remain largely unhedged, Yetichem remains exposed to forex risk arising from currency rate fluctuations. Moreover, it remains exposed to the risk of tariff increments on import of medicines. At present, imported medicines are subjected to no or low (up to 1%) import tariffs. Any increment in import duty/tariff could have a significant impact on the company's incremental revenue, profitability, and debt coverage indicators.

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 previous rating rationale:
Rationale Yetichem Distributors Private Limited Bank Loan Rating Surveillance January 2023

About the company

Incorporated in 2001 as a private limited company, Yetichem Distributors is engaged in the trading of pharmaceutical products. The company primarily deals in chronic medications related to diabetes, cancer, and tuberculosis, among others. It procures medicines from both local and global manufacturers/suppliers for selling them in the local market.

The business is owned by the two brothers, Mr. Prabhu Raj Vaidya and Mr. Prithvi Raj Vaidya, each holding 50% stake in the company. The registered office of the company is in Sundhara, Kathmandu.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating income-OI (sales in NPR million)	1,387.3	1,403.8	1,601.2	1,732.8	1,776.2
OPBDITA/OI (%)	6.4%	6.4%	7.4%	9.4%	10.3%
Total debt/Tangible net worth (TNW; times)	2.6	1.7	2.0	2.1	1.9
Total outside liabilities/TNW (times)	4.2	3.8	3.7	3.6	3.3
Total debt/OPBDITA (times)	3.6	2.9	3.3	2.7	2.5
Interest coverage (times)	2.6	2.5	3.5	3.4	2.9
DSCR (times)	2.2	2.0	2.9	2.7	2.3
NWC/OI (%)	30%	24%	29%	31%	37%
Current ratio	1.2	1.2	1.2	1.2	1.3

Source: Company data

Annexure-1: Instrument Details

Instrument (Amount in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
Long Term Limits			
Long term, fund based (hire purchase loan)	0.44	204.60	[ICRANP] LBB+; reaffirmed
Total long term, fund based (A)	**0.44**	**204.60**	
Short Term Limits			
Fund based (Demand loan/ Overdraft/TR loans)	300.00	100.00	[ICRANP] A4+; reaffirmed
Non-fund based (LC/ Bank guarantee)	450.00	448.00	
Total short term, fund based/non-fund based (B)	**750.00**	**752.60**	

Instrument (Amount in NPR million)	Last Rated Amount	Current Rated Amount	Rating Action
Grand total (A+B)	**750.44**	**752.60**	

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About ICRA Nepal Limited:

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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.

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