# C.G. Impex Private Limited: Long-term rating assigned; short-term rating upgraded and removed from 'Issuer Not Cooperating' category

**March 04, 2024**

## Summary of rating action

| Instruments* (Amounts in NPR million) | Last rated amount | Current rated amount | Rating action |
|---|---|---|---|
| Long-term loan limits | - | 200 | [ICRANP] LBBB; assigned |
| Short-term loan limits | 3,920 | 4,020 | [ICRANP] A3+; upgraded from A4+ and removed from 'Issuer Not Cooperating' category |
| **Total** | **3,920** | **4,220** | |

** There are different instruments within the above rated limits.*

## Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBBB (pronounced ICRA NP L triple B) to the long-term loan limits of C.G. Impex Private Limited (CGI). ICRA Nepal has also upgraded the company's short-term loan rating to [ICRANP] A3+ (pronounced ICRA NP A three plus) from [ICRANP] A4+ (pronounced ICRA NP A four plus). The short-term loan rating has also been removed from 'Issuer not cooperating' category.

## Rationale

The rating action mainly factors in the company's improved capitalization profile with gearing of ~0.7 times as of mid-July 2023 (~2.1 times as of mid-July 2021, when last rated), mainly on account of internal accruals and working capital releases (in line with reduced turnover) in the interim. The ratings are also anchored by the company's healthy operating profit margins (OPM) at >13% in last three years ending mid-July 2023 (supported partly by inventory gains). These have also led to refinement in the company's total debt to OPBDITA metrics as well as debt servicing indicators, which remains a rating positive. The rating also remains supported by CGI's long track record with an established/diverse sales channel and its established brand portfolio. ICRA Nepal also takes comfort from the reputation, financial strength and established track record of the company's promoter group, i.e., the Chaudhary Group. CGI's liquidity profile also remains good with sizeable unutilised drawing power, which also has been factored into the rating action.

However, the rating remains constrained by CGI's sustained high working capital intensity (net working capital to operating income ratio – NWC/OI) of ~40% in FY2023, mainly on account of elongated debtor days in current times of demand slowdown (~17% revenue degrowth during FY2023, moderated to ~8% decline in H1FY2024 against similar period last year). CGI's major chunk of revenues is derived from LG products (~68% in FY2023 viz. ~70% in FY2022), which exposes it to supplier concentration risks, given the absence of a long-term import and distribution agreement with the supplier. Further, higher portion of debtors (~24% as of mid-July 2023) remaining in the non-financing category raises some concerns regarding its liquidity, however, the company's liquidity cushion is comfortable even after excluding the same, which provides comfort. The ratings are also impacted by the company's generally higher dividend payout (~63% of the average profits were paid out as dividends during FY2022-FY2023, albeit moderated from ~151% in earlier two years). Given the volatile dividend levels, any major or unexpectedly higher dividend payout could stress the company's liquidity profile, thus remaining a key rating sensitivity. Going forward, CGI's ability to continue adequate revenues/margins whilst maintaining comfortable capitalisation and coverage indicators and lowering the working capital intensity will remain key monitorable.

## Key rating drivers

### Credit strengths

**Healthy margins and improved financial profile** – Given the good demand outlook for LG/CG branded products, the company has been able to report a healthy OPM of ~14% for FY2023, despite declined advantage from inventory gains and reduced scale (~17% sales degrowth). While the margins are expected to moderate to their long-term trends over the medium term, CGI has reported improved capitalization indicator with TOL/TNW of ~1.1 times as of mid-July 2023 (~3.7 times as of mid-July 2021 when last rated), supported mainly by internal accruals and working capital releases. Accordingly, the total debt to OPBDITA also improved to ~1.1 times as of mid-July 2023 from ~1.6 times as of mid-July 2021. Despite, the moderation in coverage indicators with ICR of ~6.5 times in FY2023 (~8.7 times in FY2021), the same still remains comfortable, considering the impact of increased borrowing rates in the interim alongside decline in the scale.

**Long track record and strong brand recall of LG/CG** – CGI has been the authorised distributor for LG electronics/home appliances in Nepal since the inception of the company in 2004. Additionally, the company has its homegrown brand of consumer electronics and electricals (viz. CG since 2006) and is also dealing with other growing brands (viz. Pigeon, Black & Decker etc.) that offers some segment and revenue diversification to the company, despite LG being the key revenue driver (~68% contribution to FY2023 revenues, followed by ~27% for CG). With the presence of CG brand, CGI caters mainly the budget segments while LG caters the premium segment. The company has recently introduced an inhouse brand-Meridia as relatively premium brand to CG to cater the alternative customer segment and reduce the reliance over LG brand. The sales trajectory has also been supported by the company's extensive sales channel, comprising ~600 dealers across the nation and 24 own outlets along with presence in leading online shopping portals (including the group's own platform CG Digital). This is also reflected in CGI's relatively diversified customer base with approximate 19-22% of the sales being concentrated among the top-10 dealers.

**Adequate liquidity buffers** – While a large portion of the company's debtors (~24% as of mid-July 2023) remaining in >90 days category (usually non-funded by the banks), remains a concern, CGI still had adequate unutilised drawing power at ~54% as of mid-July 2023, excluding these aged debtors. This cushion is expected to help the company in managing any near-term liquidity stress.

**Strong promoter profile and experienced management team** – CGI is a part of the Chaudhary Group, which is one of the established and reputed business houses in Nepal with a strong presence and long track record in multiple sectors such as manufacturing, trading, automobile, cement, hospitality, real-estate, and financial services (including controlling interest in Nabil Bank Limited, the oldest private sector bank in Nepal with a long-term issuer rating of [ICRANP-IR] AA-@ by ICRA Nepal). The Group's long track record across various business spheres and its experienced promotor and management team have been reflected in its good business performance over the years.

### Credit challenges

**High working capital intensity** – CGI's working capital intensity continues to remain higher with NWC/OI of ~40% in FY2023. This was mainly due to the extended debtors' days provided in times of demand slowdown. Despite slight improvement in inventory days (~111 in FY2023 as against ~119 in FY2021), CGI's ability to improve the overall working capital cycle by containing the debtors' amount would remain monitorable. The company's dividend payout has also been generally higher with an average of ~63% profit being paid out as dividends during FY2022-2023 (albeit moderated ~151% in earlier two years). Any future spike in such payout levels would stress the liquidity profile of the company and remains observable.

**Stiff competition from other major brands** – The competition remains high due to the presence of multiple players and brands in the consumer electronics and small home appliances segment. Stiff competition from other established brands and growing new brands across product segments could also impede the growth prospects for CGI. Despite the presence of multiple brands in the portfolio, major chunk of the company's revenues is derived from the LG brand (~65-70%). This remains a concern from the supplier risk side as there is no long-term distribution agreement with the supplier. Nonetheless, the company's long track record in dealing with these brands provides comfort. Moreover, none of the multinational companies in general has the practice of providing a long-term exclusive import/distribution right for importing their products, to a single party in Nepal.

**Technological challenges** – The smart appliances segment is characterised by rapid technological changes and is fiercely competitive. With the increasing innovation to provide latest and updated product to gain market share by different brands, the ability of LG and CG to continuously launch innovative products at competitive rates would have a bearing on the company's financial outlook going forward.

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

**Link to the applicable criteria:**
Corporate Credit Rating Methodology

**Link to the last rating rationale:**
Rationale_C.G. Impex Private Limited_INC categorization_December 2023

## About the Company

C.G. Impex Private Limited (CGI), established in 2004, is the exclusive authorised importer and distributor of LG brand consumer electronics and home appliances in Nepal. Further, CGI is also the national dealer of CG brand electronics, and home appliances. The secondary product portfolio of CGI comprises brands like Black & Decker, Crompton and Pigeon branded small home appliances, among others. CGI is a unit under the Chaudhary Group, which is one of the established business houses in Nepal having presence across multiple sectors. CGI's shareholders include Mr. Nirvana Chaudhary with 85% shareholding and the remaining 15% stake held by Mr. Varun Chaudhary (Sons of Mr. Binod Kumar Chaudhary, Nepal's only Forbes listed billionaire).

## Key financial indicators

| | FY2019 (Audited) | FY2020 (Audited) | FY2021 (Audited) | FY2022 (Audited) | FY2023 (Audited) |
|---|---|---|---|---|---|
| Operating income (OI; Revenues -NPR million) | 4,451 | 4,203 | 6,447 | 7,866 | 6,524 |
| OPBDITA/OI (%) | 9.7% | 9.6% | 14.4% | 17.9% | 13.9% |
| Total debt/tangible net worth (TNW; times) | 1.8 | 2.8 | 2.1 | 1.1 | 0.7 |
| Total outside liabilities/TNW (times) | 2.9 | 3.9 | 3.7 | 2.6 | 1.7 |
| Total debt/OPBDITA (times) | 2.4 | 4.0 | 1.6 | 0.9 | 1.1 |
| Interest coverage (times) | 4.1 | 3.4 | 8.7 | 13.1 | 6.5 |
| DSCR (times) | 3.5 | 2.9 | 6.9 | 11.3 | 6.1 |
| Net working capital/OI (%) | 34% | 52% | 38% | 36% | 40% |

*Source: Company data*

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## About ICRA Nepal Limited

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