Bottlers Nepal (Terai) Limited: Long term rating downgraded and withdrawn; short-term rating downgraded and placed on watch with negative implications

April 29, 2024

Summary of rating action

Instrument (Amount in NPR million)	Previous rated amount	Rated Amount	Rating Action
Long term loan (Term Loan)	703	-	**[ICRANP] LA+**, downgraded from [ICRANP] LAA-&* and withdrawn
Short term loan**	2,000	2,000	**[ICRANP] A1@***; downgraded and revised from [ICRANP] A1+&
Proposed short term loan	-	1,000	
Total	**2,703**	**3,000**	

* *The symbol '&' and '@' indicates Rating Watch with Developing Implications and Rating Watch with Negative Implications respectively. Please refer here for further details on rating watch and its implications.*

** *This includes both fund-based (Overdraft, Short-term loans, TR/Import Loans) and non-fund-based facilities (LC, Bonds and guarantees), with the total utilisation not exceeding the rated limits.*

Rating action

ICRA Nepal has withdrawn the long-term loan rating of Bottlers Nepal (Terai) Limited (BNTL or the company) after downgrading it to [ICRANP] LA+ (pronounced ICRA NP L A plus) from **[ICRANP] LAA-&** (pronounced ICRA NP L double A minus). ICRA Nepal has also downgraded and revised the company's short-term loan rating to **[ICRANP] A1@** (pronounced ICRA NP A one) from **[ICRANP] A1+&** (pronounced ICRA NP A one plus). The rating watch has been revised to 'Watch with Negative Implications' from 'Watch with Developing Implications'.

Rationale

The rating actions mainly factor in the sizeable tax related litigations being faced by its parent company Bottlers Nepal Limited (BNL) for the offshore change in BNL's ownership in 2014. While BNL is legally contesting the cases, its financial profile has been impacted to an extent after BNL had to furnish sizeable deposit to the tax authorities, as a legal prerequisite to contest the claims. Hence, the actual outcome of the case and its impact on the parent company as well as direct/indirect impact on BNTL would remain a key monitorable. ICRA Nepal would continue to monitor incremental developments in this regard and expects adequate direct/indirect support from the ultimate parent i.e. The Coca Cola Company (TCCC), if required.

Further, the rating also remains constrained by the sharp increase in BNTL's working capital cycle during 6MFY2024, mainly on account of inventory accumulation (sugar as well as finished products, amid the winter/off-season) and high supplier advances. Further, the seasonality induced decline in operating income/margins for the period, impacted its financial profile and coverage metrics for 6MFY2024. The company also continues to face vulnerability of profitability to adverse movement in raw material prices, along with unhedged forex exposure and increasing competitive pressures. Going forward, BNTL's ability to improve the revenue momentum, while maintaining comfortable capitalisation and improving debt service indicators, would remain the key rating sensitivities.

Nonetheless, the rating continues to derive comfort from the BNTL's strong operational profile and healthy financial profile, notwithstanding the seasonality induced moderations during 6MFY2024. The company's capitalisation still remains comfortable with sizeable reserves. BNTL's liquidity profile has also remained comfortable as seen in the form of sizeable unutilised drawing power at ~35% as of mid-January 2024. The ratings also continue to factor in the company's strong parentage with ~91% stake held by Bottlers Nepal Limited **(BNL, rated at [ICRANP] A1@**), along with its experienced board and management profile. BNL and BNTL have a stable business model as the authorised bottlers of

The Coca Cola Company (TCCC) in Nepal. BNTL's long track record (since 1987), association with the strong brand and diverse dealer network has helped it attain a sizeable market share.

Key rating drivers

Credit strengths

Strong operational profile – BNTL is the majority-owned subsidiary of BNL (rated at [ICRANP] A1@) with ~91% stake (rest being held by public shareholders). ICRA Nepal favourably views the parent's strong financial profile and comfortable liquidity position and its stance on extending requisite liquidity support to BNTL. Additionally, the experienced board/management profile of the company has been aiding BNTL in maintaining a sound business performance over the years. Accordingly, BNTL reported CAGR in revenues by ~23% from FY2021 to FY2023, and its operating profit margin (OPM) also remained healthy (17-22%) over the same period. While the seasonality in sales has impacted the revenues/margins during 6MFY2024, the same is likely to be largely recovered by the end of FY2024, as seen in previous years. However, the company's ability to pass on the increased input prices in subsequent quarters will remain crucial, given the higher pressure seen in gross margins during 6MFY2024, as compared to similar period in earlier years.

Healthy capitalisation indicators – BNTL's gearing (total debt to total net worth) and TD/OPBDITA remains robust with 0.7 times and 1.7 times as of mid-July 2023 supported by healthy OPM and good net cash accruals during FY2023. While the decline in margin along with increased debt levels during 6MFY2024 has moderated the total debt/OPBDITA to 3.8 times as of mid-January 2024, past trend of better sales during the last quarters of the financial year (coinciding with the summer season) with slightly better margin could provide support.

Adequate liquidity – Supported by the good sales volumes and healthy OPM in general, the company's cash flows have remained healthy leading to a good liquidity cushion in form of ~35% unutilised drawing power as of mid-January 2024, despite the higher stocking of inventory and high supplier advances. The available financial flexibility is expected to be adequate to manage any near-term operational liquidity pressures. The Group has also supported the company through an extended credit period (mainly for concentrate) which provides further comfort. Further, the continued track record of liquidity support from the parent company (BNL) also remains a positive. However, any major materialisation of the large, contested tax liability of BNL and its cascading effect if any, to BNTL remains a key monitorable.

Robust operational profile and long track record leading to sizeable market share – The company, along with its parent BNL, are the authorised bottlers of The Coca Cola Company (TCCC) in Nepal. TCCC is the owner of one of the biggest brands in the world i.e., Coca Cola. By virtue of this association, the business model is stable, and the operational profile remains strong with a sizeable market share in the domestic carbonated soft drink industry. This was also supported by the company's long presence in the industry (since 1987), coupled with its extensive dealer network.

Credit challenges

Increase in working capital cycle – The company has reported a gradual increase in its working capital cycle in recent years, which has accentuated sharply during 6MFY2024 as reflected in working capital intensity (net working capital to operating income ratio) of ~24% as against ~8% in FY2022. This was mainly due to the increased supplier advances and the buffer stock kept for upcoming peak season demand. The resultant increase in debt levels and decline in margin has resulted in moderation in coverage indicators for the company with subpar DSCR of 0.9 times for 6MFY2024 (albeit supported by available liquidity cushion). While these working capital spikes are expected to moderate over the near term, any sustained deterioration in the intensity could give rise to higher working capital financing needs and erode the liquidity cushion and/or gearing levels.

Vulnerability of operating profitability to fluctuations in prices of various raw materials – BNTL's profitability is vulnerable to fluctuations in the prices of various raw materials mainly the sugar, concentrate etc. Additionally, unfavourable exchange rate fluctuations might further impact the profitability as the forex exposures are largely unhedged. Raw materials form a major part of the company's cost structure, which has reported increments to ~58% of net operating income in the recent years (previously in the range of 48-52%). Its ability to pass on any increase in input costs by increasing prices of its products would remain critical for its operational and financial profile.

Susceptibility to adverse changes in Government regulations – BNTL also remains susceptible to adverse regulatory changes and modifications in consumer preferences. Additionally, the seasonality in revenue impacts the company's capacity utilisation, cash flow pattern, and profit margins. The demand of aerated beverages is contingent upon the taste and preferences of consumers. With a shift towards a healthy lifestyle, there is a possibility of moderation in demand for aerated beverages. Both these factors can impact the company's revenue/ margins.

Link to the previous rating rationale:
Rationale_BNTL_BLR-Survelliance_July-2023

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

About the company

Incorporated in 1987, Bottlers Nepal (Terai) Limited (BNTL) is involved in the production, and sale of carbonated non-alcoholic beverages under the brand names - Coca-Cola, Sprite, Fanta and Kinley. BNTL and its parent company BNL, are the authorised bottlers of The Coca-Cola Company (TCCC) in Nepal. While the parent company BNL caters to the Kathmandu valley, BNTL caters to a larger market periphery i.e., entire Nepal, except for the Kathmandu valley. Majority shares of BNTL's are held by BNL (~91%) while the rest is held by public shareholders. The shares of BNTL are listed with the Nepal Stock Exchange Limited.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	6MFY2024 (Provisional)
Operating income-OI (NPR million)	6,212	9,198	9,401	3,698
OPBDITA/OI (%)	22.1%	19.4%	17.2%	10.6%
Total debt/Tangible net-worth-TNW (times)	1.2	0.7	0.7	0.8
Total outside liabilities/ TNW (times)	2.0	1.5	1.4	1.6
Total debt/OPBDITA (times)	2.3	1.3	1.7	3.8
Interest coverage (times)	4.7	8.6	5.3	2.8
DSCR (times)	1.6	2.2	1.8	0.9
Net-working capital/OI (%)	6.0%	7.7%	18.2%	24.4%

Source: Company data

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About ICRA Nepal Limited

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