

J.G.I. Distribution Private Limited: Ratings reaffirmed

June 3, 2024

Summary of rating action

Instrument*	Previous rated limit (NPR million)	Current rated limit (NPR Million)	Rating Action
Long-term loan: fund-based	29.26	779.26	[ICRANP] LBB; reaffirmed
Short-term; fund-based	4,300.0	3,550.00	[ICRANP] A4+; reaffirmed
Total	4,329.26	4,329.26	

* Instrument 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) and short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the bank loan limits of J.G.I. Distribution Private Limited (JGIDPL).

Rationale

The rating continues to factor in JGIDPL's strong market positioning in the alcoholic beverage distribution, supported by its experienced promoter group and the group's long history and track record in Nepalese liquor industry. Additionally, the rating reflects the company's diverse product portfolio, which includes both distillery and brewery-based products. The rating is further supported by JGIDPL's adequate operational scale and the resulting economies of scale, its established sales channel (five warehouses and over 180 distributors) and its diversified customer profile.

The rating, however, continues to remain constrained by the company's moderate financial profile, characterised by falling revenue, moderate margins, high working capital intensity and relatively high gearing levels; which is likely to remain exacerbated by the ongoing slowdown in economic activities and slack in demand. This is likely to translate into subdued profitability, debt coverage indicators and a moderate liquidity position, despite the company's scale advantage. JGIDPL's gearing level is also elevated due to the short-term advances given to sister units (including advance payment against purchase of goods). Amid past dividend withdrawal, elevated utilisation of working capital loans to finance the high working capital intensity, the company has limited to no headroom within its working capital drawing power (~99% utilization as of mid-January 2024); which makes the company less equipped to handle liquidity shocks arising from decline in revenue, delayed liquidation of inventory and/or delayed recovery from debtor. Rating concerns also arise due to significant regulatory risks associated with the liquor industry.

Going forward, JGIDPL's ability to protect the sales and margin and control the working capital intensity will have a bearing on its profitability, capitalisation, liquidity, and coverage ratios, and therefore will remain key rating sensitivities.

Key rating drivers

Credit strengths

Established track record and experienced management – JGIDPL is a part of Jawalakhel Distillery group, founded by Mr. Vijay Kumar Shah (JGIDPL's managing director and group chairman) in 1973. The group comprises of eight companies under its umbrella viz: JGI Private Limited, four distilleries, one brewery, one research unit (Technology and Research Centre) and JGIDPL. The group holds good market share in the Nepal's distillery-based products, while its brewery business in the stabilization phase. Experienced senior management team of the company also remains a positive.

Wide product range – JGIDPL is the exclusive distributor for all JGI Group products and has a strong presence in 40UP brown spirit segment, particularly Golden Oak, which has gained strong traction among the Nepalese consumers. For FY2023, ~59% of the sales revenue comprised of brown spirits (Golden Oak, Black Oak, Royal Treasure, Himalayan Brandy, and others), ~22% white spirits (Vodka, Gin and Aaila) and ~19% beer. Product wise, JGIDPL’s sales remains driven by two 40 UP products viz. Golden Oak and Blue Diamond Gin, collectively accounting for ~62% of FY2023 sales (vs. ~68% in FY2022).

Established sales channel - The company has an established supply chain with ~187 dealers nationwide and five warehouses. The sales remain fairly diversified across its customers, with the top-20 customers accounting for ~45% of its sales in FY2023.

Credit challenges

Leveraged capital structure – Rising debt, moderate sales/profitability and dividend withdrawal in the past years, has contributed to a leveraged capitalisation profile for JGIDPL. While a marginal improvement in OPM has been reported in H1FY2024, its sustainability remains to be seen. JGI’s gearing ratio was 3.4 times as of mid-July 2023, up from 2 times as of mid-July 2022, with TD/OPBDITA¹ of 5.9 times and TOL/TNW² of 7 times as of mid-July 2023. The gearing ratio remained stable at 3.4 times as of mid-January 2024, with TD/OPBDITA slightly improving to 5.2 times.

Moderate profitability, stretched liquidity and coverage indicators – The company’s profitability remains moderate, characterized by modest operating profit margins despite sizeable scale of operations. Following a short-lived improvement in FY2022 driven by pent-up demands from the covid era, company’s profitability indicators moderated in FY2023. Given the low-margin nature of business, the company’s ability to manage its working capital intensity will be critical for maintaining its incremental gearing level and debt coverage ratios, considering ongoing unfavourable economic conditions. Managing liquidity will also remain a challenge given the limited headroom in its working capital drawing power to absorb any near-term liquidity shocks. Over the longer term, the revival of premium segment (including Ruslan Vodka) and better offtake of brewery products is likely to remain key for the company’s future revenue, margin, and profitability profile.

Regulatory risk – High import tariff on finished liquors protect the domestic spirits industry and therefore all domestic players including JGIDPL remains vulnerable to potential regulation changes. Any reduction or removal of import-duty/tariff could significantly impact on the company’s revenue profile, profit margin and debt coverage indicators. Additionally, liquor is heavily taxed in Nepal, with the excise tariff rising annually. Continued tariff increases and competitive pressures may hinder JGIDPL’s ability to pass on the incremental cost to the consumers, reducing profit margins. Furthermore, any restriction by the regulatory agency in promotion, sales and distribution of liquor could also have an impact on JGIDPL.

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:

[Rationale J.G.I. Distribution Private Limited BLR Surveillance, May 2023](#)

¹ TD-total debt, OPBDITA-Operating profit before depreciation interest tax and amortization, NCA-net cash accruals

² TOL-total outside liabilities

About the company

Incorporated in August 2016, J.G.I. Distribution Private Limited (JGIDPL) is the sole distributor of alcoholic beverages produced by Jawalakhel Group of Industries through its four distilleries (Vijay, Asian, Himalayan and Rolling River) and a brewery (Raj Brewery).

The company is promoted by Mr. Vijay Kumar Shah (~55% stake) and his son Mr. Raj Bahadur Shah (~45% stake). JGIDPL is a unit under Jawalakhel Group of Industries, which has over four decades of operations in production of alcoholic beverages in Nepal. JGIDPL has presence across the country through four warehouses and ~187 dealers.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	6MFY2024 (Provisional)
Operating income-OI (NPR million)	11,386.0	14,502.7	16,989.0	13,625	5,118
OPBDITA/OI (%)	3.6%	2.2%	3.6%	3.2%	5.4%
Total debt/Tangible net-worth-TNW (times)	2.7	5.0	2.0	3.4	3.4
Total outside liabilities/ TNW (times)	4.6	6.2	4.4	7.0	4.8
Total debt/OPBDITA (times)	5.0	10.5	2.8	5.9	5.2
Interest coverage (times)	1.1	1.5	3.5	1.7	2.1
NWC /OI (%)	24%	27%	15%	23%	36%
Current ratio (times)	1.2	1.2	1.2	1.1	1.2

Source: Company data

Annexure-1: Instrument Details

Instrument	Previous rated limit (NPR Million)	Current rated limit (NPR Million)	Rating action
Long-term limits	29.26	779.26	[ICRANP] LBB (reaffirmed)
Fund-based (permanent working capital loan)	-	750.00	
Fund-based (hire purchase loan)	29.26	29.26	
Short term limits	4,300.00	3,550.00	[ICRANP] A4+ (reaffirmed)
Fund-based (Overdraft/Cash Credit)	750.00	750.00	
Fund-based (Short-term working capital)	3,550.00	2,800.00	
Total	4,329.26	4,329.26	

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About ICRA Nepal Limited:

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