

PRESS RELEASE

NEPAL LIQUORS PRIVATE LIMITED

June 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	916.14	IRN BB-	Assigned
Short Term Bank Facilities	861.70	IRN A4	Assigned
Total	1,777.84		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 916.14 Mn and short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 861.70 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Nepal Liquors Private Limited (NLPL) derive strength from its established track record of operations, supported by a franchise agreement with Diageo Plc via United Spirits Limited, a multinational company in the beverage alcohol segment. The ratings also consider the company's extensive distribution network presence throughout Nepal and the experience of its promoter and management team. Furthermore, the company's significant presence in the whiskey segments adds to its rating strength. The ratings, however, are constrained by the company's large working capital requirement and modest coverage metrics, which result in a high utilization of working capital limits. Additionally, the liquor industry as a whole faces challenges stemming from exposure to regulatory risks and a recent decline in demand. Going forward, the company's ability to enhance its operational and financial profile, improve profitability, and strengthen coverage through efficient working capital management will be crucial rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record of operation aided by franchise agreement with Diageo PLC

NLPL (formerly known as United Spirits Nepal Private Limited) has been operating in the beverage alcohol industry, especially in the whiskey segment, for over four decades in the domestic market. However, the company also operates in various other segments such as gin and vodka. Additionally, NLPL is a franchise unit of Diageo PLC through United Spirits Limited, India. Diageo¹ is a British multinational company that operates from 132 sites worldwide and sells over 200 brands in more than 180 countries. Diageo is a major distributor of Scotch whiskey and other spirits. The synergies with Diageo ensure that NLPL benefits from easy access to high-quality spirits and an established brand network, including brands like Signature, Antiquity, Smirnoff, and many more. The strong presence of Diageo brands in the alcoholic beverage/liquors segment, coupled with their increasing presence, is expected to continue driving revenue growth for NLPL over the medium term.

Established distribution network and experienced promoter/ management team

With a track record of over four decades in the liquor segment, NLPL has successfully established a wide distribution network throughout Nepal. Currently, the company has ten regional distributors and over 60 sub-distributors who distribute its products across the country. The extensive distribution network is a testament

¹ Source

to NLPL's market presence and reach. Furthermore, NLPL benefits from the expertise and experience of its promoter/chairman, Mr. Rajesh Bir Singh Tuladhar, who has over three decades of experience in the distillery and brewery segment. His leadership is expected to further enhance the company's distribution network. Additionally, Mr. Tuladhar holds directorship positions in various other group companies, showcasing his involvement in the industry. Moreover, the Board of Directors is supported by an experienced and qualified management team. Mr. Komal Prasad Sharma, the General Manager in manufacturing, brings over four decades of long experience in the liquor industry, contributing to the overall expertise and proficiency of NLPL.

Demand of liquors and Tourism in Nepal

According to data published by the World Bank on total alcohol consumption per capita, Nepal recorded a consumption of 2 liters of pure alcohol per capita in 2018. This figure is lower compared to the average consumption of 4.3 liters per capita for the WHO South-East Asia Region and 6.2 liters of pure alcohol per capita worldwide. The relatively low per capita consumption of liquor in Nepal suggests potential for increased consumption in the future. Additionally, imports of alcohol products have shown a decreasing trend in terms of quantity over the past four years, until the end of the third quarter of FY23. This trend is beneficial for domestic manufacturers like NLPL, as it supports the consumption of alcohol produced within the country. From April 2022 to February 2023, 12 new star hotels and three new resorts were registered and commenced operations in Nepal. Furthermore, since mid-July 2022, there has been an increase in the arrival of tourists, with each subsequent month witnessing over a 70 percent increment in tourist arrivals. As a result, the number of bars, restaurants, and other establishments serving alcohol is expected to rise, reflecting the growth in tourism and hospitality sectors.

Key Rating Weaknesses

Large working capital requirement

The operations of NLPL are characterized by a significant requirement of working capital, evident in its gross current assets (GCAs) of 437 days as of mid-July 2022. The liquidity issues faced recently have resulted in a sizeable receivable from the parties. Additionally, NLPL maintains a stock of inventory for 2-3 months to ensure smooth operations. Due to the impact of the pandemic and the subsequent liquidity crunch, the working capital cycle has been extended. Consequently, NLPL has increasingly relied on bank financing to meet its working capital. This reliance has resulted in a consistently high and tight average utilization of the fund-based working capital limit against the drawing power for NLPL.

Leveraged capital structure and weak coverage indicators

NLPL's capital structure has remained leveraged, evident from an overall gearing ratio of 4.63x as of mid-July 2022. Although there has been an improvement in gearing from the previous fiscal year (6.17x in FY21), primarily due to equity capital infusion, it still remains relatively high. The combination of high and increasing debt levels, along with low profitability, has kept the coverage indicators subdued, as reflected by a Total Debt/EBITDA of 7.42x in FY22 (compared to 6.33x in FY21). Furthermore, the increase in interest expenses has resulted in a decline in the interest coverage ratio to 1.41x in FY22, down from 2.42x in FY21.

Highly regulated liquor industry

The liquor industry in Nepal operates under stringent government regulations and experiences high taxation, which contributes to the complexity of the industry. Moreover, an interim order has been issued that restricts media houses from advertising alcoholic beverages directly. As a result, market players in the liquor industry resort to surrogate advertising methods to promote their products. Any modifications in government policies concerning liquor production, distribution, taxation, excise duty, or significant changes to the duty structure can significantly affect the entire liquor industry, including NLPL.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Nepal Liquors Private limited (formerly known as United Spirits Nepal Private Limited) is a franchise unit of Diageo PLC. Established in 1982, NLPL is one of the oldest company in liquor Industry. Its plant is located in Tankisinwari-2, Biratnagar, Nepal. NLPL bottles and markets various spirits brands in Nepal, including Antiquity, Signature, McDowell's No. 1, Blue Riband Gin and Royal Challenge, among others. Additionally, NLPL has recently launched "Smirnoff" vodka in the domestic market. NLPL is a family owned business where Mr. Rajesh Bir Singh Tuladhar is an executive chairman.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	1,163	1,502	1,526
EBITDA Margin (%)	11.76	16.26	13.28
Interest Coverage Ratio (x)	1.78	2.42	1.41
Current Ratio (x)	1.04	1.20	1.06
Overall Gearing Ratio (x)	7.05	6.17	4.63

EBITDA= Earnings before Interest Tax Depreciation Amortization

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	267.14	IRN BB-
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	649.00	IRN BB-
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	600.00	IRN A4
Fund Based Bank Facilities-WCL (Proposed)	Short Term	201.70	IRN A4
Non Fund Based Bank Facilities- LC & BG	Short Term	60.00	IRN A4
Total Facilities		1,777.84	

LC= Letter of Credit; BG= Bank Guarantee

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About Infomerics Credit Rating Nepal Limited:

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