

Rating Rationale

Apex Manokamana Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Short Term Bank Facilities	730.00	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	730.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘‘CARE-NP A4+’ to the short term bank facilities of Apex Manokamana Private Limited (AMPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AMPL are constrained by short track record of operation however, established dealer network within short period of time, leveraged capital structure, working capital intensive nature of operations and exposure to volatile interest rates, foreign exchange rate fluctuation risk, fortunes linked to performance of Vivo and short Product life cycle. The ratings also factors stiff competition from other mobile phone players in the industry and exposure to regulatory risk related to smartphone industry. The ratings, however, derives strength from experienced promoters being a part of Apex Group of companies, strong brand value of Vivo Communication Technology Co. Ltd., authorized distributor of Vivo mobile phone in major parts of Nepal, satisfactory financial performance during initial year of operation and improved during H1FY19 and comfortable debt service coverage indicators. Ability of the company to achieve growth in revenue, improvement in the profitability margins and its overall solvency position will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations however, established dealer network within short period of time

AMPL was incorporated in August 2017, as a private limited company, an authorized distributor of Vivo mobile phones and accessories for central Nepal and commence its operation from November 7, 2017. During short period of operations it has established dealer network with 13 dealers and Apex Link Pvt. Ltd., (ALPL) is one of them. ALPL is Group Company of AMPL. AMPL has been distributing its all mobile phone to other dealers through ALPL till FY18. Contract with dealers are on year-to-year basis and margin are fixed by Vivo Company.

Leveraged capital structure however comfortable debt coverage indicators

Overall gearing ratio of the company was high at 6.47x at the end of FY18, which improved to 2.18x at the end of H1FY19 due to increase in networth by accretion of profits and decline in short term debt. Short term debt declined mainly on account of reduction in debtors and loans & advance. Total

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Debt/GCA was high at 15.55x in FY18 however, it was decreased to 7.32x in H1FY19. Further, the interest coverage ratio of the company was comfortable at 3.15x in FY18 which slightly increased to 3.39x in H1FY19 due to decline in interest expenses with decrease in loan utilization level.

Working capital intensive nature of operation and exposure to volatile interest rate

Mobile phone distributorship business is working capital intensive in nature. It has to maintain certain level of inventory to avoid stock out problem as the supply is totally dependent upon imports. Apart from this, the company is not getting credit period from supplier, however, the company provides credit period to dealers against bank guarantee. AMPL has debtor collection period of ~45 days, inventory holding period of 12 days and operating cycle of ~56 days in H1FY19. The average month end working capital utilization against month end drawing power was 71.30% during the last 12 months ended on Mid Jan, 2019. Further, Nepalese banking sector fix interest rates on lending based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, project funding from Banks and Financial Institutions are exposed to volatile interest rate.

Foreign exchange fluctuation risk

AMPL imports mobile phone and its accessories from China and are invoiced in USD. AMPL has not taken any hedging mechanism to minimize the risk associated with fluctuation in foreign currency, however, the foreign currency fluctuation risk is mitigated to some extent by arrangement with the supplier to bear foreign exchange gain/loss beyond certain amount.

Fortunes linked to performance of Vivo

AMPL has been dealing with Vivo mobile phone only. As a result of sole dependence on Vivo mobile products only; management effort, internal marketing and other things remaining constant; the brand value and performance of vivo brand as a whole directly, affects the performance of AMPL.

Short product life cycle

Normally mobile phones are high trending products and impacted heavily by technological advancements and changing consumer preference, hence it has short life cycle. Present market leadership and sales success doesn't guarantee future leadership. Brands like Vivo, which have comparatively lower brand value compared to industry brands like Samsung and Apple need to come up with more innovative, and featured product, to maintain and grow the market share. However, AMPL is importing product frequently instead of importing in bulk quantity which lead to low level of inventory. If any product is out of market trend, then the company will liquidate the product by providing discount and the loss will be shared between AMPL and the supplier.

Stiff competition from other mobile phone players in the industry

There is stiff competition among mobile phone brands in Nepal. There are large number of similar brand players in market like Colors, Huawei, Lava, Lenovo, Micromax, Motorola, Nokia, OnePlus, Oppo, Sony,

Techno, Xiaomi etc. and strong brand players like Samsung and Apple as well. Further, the players are launching new model with new features. Vivo's main differentiator is its cost and innovative features. However, with other low cost players come up with comparatively more innovative features and marketing strategy, market shift may be expected. Hence there is tough competition in the market at present and future as well. Stiff competition result in competitive pricing pressures in the market.

Exposure to regulatory risk related to mobile industry

Some risks arise from policies and taxation laws relating to mobile industry. Earlier, till FY18, mobile retailers used to get 40 percent VAT refund at the end of the fiscal year. But the budget announcement for FY19 scrapped the provision. Further, five percent excise duty has been imposed on import of mobile phone (earlier only 13% VAT is imposed on import) which result in total 18 percent taxes on import of mobile phones in Nepal. As the mobile phone industry has grown very rapidly in the last few years, grey market supply and demand has also gone up significantly.

Key Rating Strengths

Experienced promoters being a part of Apex Group of companies

AMPL is promoted by individuals belong to Apex Group which has presence in cement industry, hydropower, bricks manufacturing, real estate, trading and consumer electronics business. The company is managed under the overall guidance of the company's board of directors who possess wide experience in various industries and trading business. Mr. Mukunda Prasad Timilsina, chairperson of AMPL, is chairperson of Samrat Cement Company Pvt. Ltd, (SCCPL) and director of United Modi Hydropower Ltd., (UMHL). Mr. Sudhir Prasad Timilsina, vice chairperson of AMPL, is director of SCCPL, Shuva shree Agni Cement Pvt. Ltd. and is managing director of UMHL. Mr. Pragyat Timilsina, managing director, is also managing director of Apex Link Pvt. Ltd. Further, the Apex group has prior experience in distributorship business. It has first started its business in mobile from Maxx Mobile and certain other mobile accessories. Then the group brought the brand Zoppo in Nepal.

Strong brand value of Vivo Smartphones and the authorised distributor in Nepal

Vivo Communication Technology Co. Ltd. (VCT), often known as Vivo, is a Chinese technology company founded in 2009, in Dongguan, China. VCT is owned by its parent company BBK Electronics, China. VCT designs and manufactures smartphones, smartphone accessories, software, and online services. VCT presently has 4 manufacturing bases globally and 6 Research & Development centres globally. VCT has been expanding aggressively around the world since it began its international expansion in 2014. VCT has also marketed heavily with sponsorship deals as title sponsor for Indian Premier League 2019, official smartphone brand for 2018 and 2022 FIFA World Cup. It is also a title sponsor of India Pro Kabaddi. According to counterpointresearch.com, Vivo smartphones holds 7% global market share in the Q42018 and the company is the 6th largest mobile company in the world.

Authorised distributor of Vivo mobile phone in major parts of Nepal

AMPL is the authorized distributor of Vivo mobile phones in Bagmati, Narayani and Janakpur zone of Nepal which covers around 57% mobile phone market in Nepal. On 26 November 2017, Vivo entered the Nepali market with Y53 and Y65 models. Vivo mobile phone is popular in developing country like Nepal due to its low cost and innovative features.

Satisfactory financial performance during initial year of operation and improved during H1FY19

During FY18, AMPL achieved total income of Rs.553 Mn which includes Rs.474 Mn revenue from selling of mobile phones and remaining as other income and earned net profit of Rs.11 Mn. During H1FY19 (UA), the company reported sales revenue of Rs.423 Mn. PBILDT margin improved to 5.54% during H1FY19 against 4.57% during FY18 mainly due to substantial increase in sales of mobile phones. AMPL reports net profit of Rs.12 Mn during H1FY19, significantly improved as compared to FY18, mainly due to higher sales and higher PBILDT margin during the period. Further, the suppliers have been providing price support to AMPL to protect the profitability margin of the company. AMPL get price support from supplier amounting Rs.58 Mn during FY18 and Rs.21 Mn during H1FY19.

About the Company

Apex Manokamana Private Limited (AMPL) was incorporated on August 10, 2017 as private limited company, promoted by the individuals associated with Apex Group. AMPL is authorized distributor of Vivo smartphones and accessories for central Nepal. It came into operation from November 7, 2017. AMPL entered into Distributorship agreement with Mega Wisdom Ltd., supplier of Vivo smartphones and accessories, which was renewed recently for the period of 2 years. AMPL has appointed 13 dealers till March 25, 2019, and out of the dealers Apex Link Pvt. Ltd. is AMPL's group company.

Brief Financial Performance during FY18 (A) and H1FY19 (UA):

	(Rs. In Million)	
For the year ended Mid July,	FY18 (A)	H1FY19 (UA)
Income from Operations	553	423
PBILDT	25	23
PAT	11	12
Overall Gearing (times)	7.30	2.18
Interest coverage (times)	3.15	3.39

Analyst Contact

Ms. Apsara Upreti
apsara.upreti@careratingsnepal.com
 Tel No.: +977-01-4445473

Relationship Contact

Mr. Sajan Goyal
sajan.goyal@careratingsnepal.com
 Tel No.: 9818832909/+977-01-4445472/3/4

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Trust Receipt Loan/ Short Term Loan	400.00	CARE-NP A4+
Short Term Bank Facilities	Working Capital Loan	50.00	CARE-NP A4+
Short Term Bank Facilities	Overdraft Loan	30.00	CARE-NP A4+
Short Term Bank Facilities	Letter of Credit	250.00	CARE-NP A4+
Total		730.00	