

Rating Rationale

Apex Manokamana Private Limited

Rating

Facilities	Amount (Rs. In Million)	Rating ¹	Remarks
Short Term Bank Facilities	730.00	CRE-NP A4+[A Four Plus]	Reaffirmed
Total Facilities	730.00		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Apex Manokamana Private Limited (AMPL) continues to be constrained by short track record of operation, leveraged capital structure, working capital intensive nature of operations, exposure to volatile interest rates, foreign exchange rate fluctuation risk, fortunes linked to performance of Vivo, short product life cycle. The ratings also factors stiff competition from other mobile phone players in the industry, exposure to regulatory risk related to smartphone industry and negative impact of COVID-19 pandemic on business operation of the company. The rating, however, derives strength from experienced promoters being 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 and moderate debt coverage indicator. The ability of AMPL to achieve growth in revenue, improvement in the profitability margins and its overall solvency position would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Impact of Covid-19 on the business of the company

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognized as Pandemic by World Health Organization on March 11, 2020, has affected Nepal as well. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations which resulted in slowing down of the economic activities. Considering the same, AMPL closed its operations until May 10, 2020 and after that business operation has been running partially. Revenue of the company has majorly been impacted due to effects of lockdown. Lower sales than the projected levels and pressure on the profitability of the company due to high competition is expected in short term.

Key Rating Weaknesses

Leveraged capital structure however moderate debt coverage indicators

The overall gearing ratio of the company was high at 7.30x at the end of FY18, which improved to 4.77x at the end of FY19 due to increase in net worth by accretion of profits to net worth and decline in short

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

term debt at the end of the year. Total Debt/GCA was high at 15.55x in FY18 however, it improved to 9.82x in FY19 on the back of improved GCA and decline in working capital loan. Further, the interest coverage ratio of the company was moderate at 2.61x in FY19.

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 the supplier however, it has been provide credit period to dealers. Thus, the business depends heavily on working capital borrowings. AMPL has debtor collection period of ~54 days and operating cycle of ~63 days in FY19. The average working capital utilization against drawing power was 76.85% during last 12 months ended Mid-March, 2020.

Further, Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 years. Therefore, funding from BFIs is subject to volatile interest rate.

Foreign exchange fluctuation risk

AMPL imports mobile phone and its accessories from China. The pricing of imported mobile phones and accessories is in USD. AMPL has no practice of hedging for fluctuation in foreign currency value which exposes it to the high risk associated with the fluctuation in foreign currency exchange rate. 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 this 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 changes and changing consumer preference hence it has a short life cycle. They continuously evolve in next lots and series. 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, value laded and featured product on each next product release to maintain and grow the market share. However, AMPL is importing product frequently instead of importing at a time in bulk quantity which lead to low level of inventory. Due to low level of inventory there is no such big impact to company if any product it has imported is out of the market. If any product is out of market, then the company will liquidate the product by providing discount and the loss will be

shared between AMPL and the supplier. However, there is no agreement regarding how much loss will be bear by supplier and AMPL.

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 models with new features. Vivo's main differentiator is its cost and innovative features. Whenever other low cost players come up with comparatively more innovative features and large marketing, 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

AMPL is partially constrained by regulatory risk arising from various laws and policies relating to mobile industry. Earlier, before F/Y 2018-19, smartphone retailers used to get 40 percent VAT refund at the end of the fiscal year. But the budget announcement for 2018-19 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.

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

AMPL was incorporated in August 2017 as an authorised distributor of Vivo mobile phones and accessories for central Nepal and commence its operation from November 7, 2017. During short period of time it has established dealer network with total 13 dealers currently and Apex Link Pvt. Ltd., (ALPL) one of them. ALPL is Group Company of AMPL, which is distributor located in Newroad, Kathmandu, main mobile market of Nepal. AMPL has been distributing its all mobile phone to other dealers through ALPL till FY18. Contract with dealers is on year to year basis and dealer's margin is fixed by Vivo Company. AMPL increased number of dealers to 15 from 13 in FY20.

Key Rating Strengths

Experienced promoters being a part of Apex Group of companies

AMPL is promoted by four individual promoters who belong to Apex Group. Apex Group has presence in manufacturing, hydropower, real estate and trading sectors. 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, CARE-NP BB/A4]. Mr. Sudhir Prasad Timilsina, vice chairperson of AMPL, is director of SCCPL and Subhashree Agni Cement Pvt. Ltd. [CARE-NP BB+/A4+]. 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 Communication Technology Co. Ltd. (VCT), within short period of time and the authorised distributor in Nepal

VCT, often known as Vivo, is a Chinese technology company was 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 (2 in China, 1 each in India and Indonesia) and 6 R&D centres globally. VCT has been expanding aggressively around the world since it began its international presence in 2014. VCT has also marketed heavily with sponsorship deals as title sponsor for Indian Premier League which has been extended until 2022 started from the year 2016, official smartphone brand for 2022 FIFA World Cup. It is also a title sponsor of India Pro Kabaddi.

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% market in Nepal. On 26 November 2017, Vivo entered the Nepali market with its Y53 and Y65 models. Vivo mobile phone is popular in developing country like Nepal due to its low cost and innovative features. Representing authorized dealership of such a global emerging brand remarks important strength of the company and the group.

Satisfactory financial performance

AMPL derives its income from sale of Vivo mobile phone. During FY19, AMPL reported growth in sales revenue by ~61% over FY18 due to increase in number of mobile phones sold during the year. The PBILDT margin reduced slightly to 4.11% during FY19 on back of increase in administration expenses. The net profit of the company increased during FY19 due to increase in PBILDT despite increase in interest expenses. Further, suppliers have been providing price support to AMPL if the market price of any product at the time of sales is lower than market price.

About the Company

Apex Manokamana Private Limited (AMPL) was incorporated on August 10, 2017 as private limited company and is authorized distributor of Vivo smartphones and accessories for central Nepal (i.e. Bagmati, Narayani and Janakpur zone of Nepal). It came into operation from November 7, 2017. The company entered into distributorship agreement with supplier Mega Wisdom Ltd having registered office at Samoa. AMPL does not have any owned showrooms and all sales are through dealers.

Brief Financial Performance of AMPL during last 2 years is given below:

(Rs in Million)

Particulars	FY18 (A)	FY19 (A)
Income from operations	553	891
PBILDT	25	37
PAT	11	15
Interest Coverage ratio (times)	3.15	2.61
Overall gearing (times)	7.30	4.77

**Audited*

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Annexure 1: Details of the Facilities rated

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Trust Receipt Loan/Short Term Loan	350.00	CARE-NP A4+
Short Term Bank Facilities	Working Capital	25.00	CARE-NP A4+
Short Term Bank Facilities	Overdraft	30.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Working Capital	325.00	CARE-NP A4+
Total		730.00	