

Prabhu Money Transfer Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	4.30	CARE-NP BB- [Double B minus]	Assigned
Short Term Bank Facilities	1,995.70	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,000.00 (Two Thousand Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP-A4' to the short term bank facilities of Prabhu Money Transfer Private Limited (PMTPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PMTPL are constrained by its leveraged capital structure, working capital intensive nature of operations, declining trend in operational performance amid increasing competition, geography-wise revenue concentration risk, high interest outlay and interest rate risk, foreign exchange fluctuating risk, and regulatory risk.

The ratings, however, derives strength from PMTPL's well established track record of operations, established market position in the remittance sector in Nepal, widespread distribution network, and experienced promoter and management.

Going forward, the ability of PMTPL to maintain healthy growth in remittance business, maintaining adequate profitability and liquidity, manage foreign exchange risks and lower borrowing levels leading to improved capital structure would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Elevated gearing levels with substantial short term funding requirement

Overall gearing ratio of PMTPL was high at around 3.6 times as on July 15, 2021 mainly because of higher levels of working capital borrowings coupled with deteriorated tangible networth due to dividend outgo during FY21 (FY refers to the 12-month period ended mid-July). The company requires funding to provide remittance payment to beneficiaries in Nepal while it receives funds of remittance from foreign agencies typically in T+3 days, sometimes even more. PMTPL's requirement of external funds is usually for a couple of days, which could increase further on non-working days. As a result, the company has a continuous trade receivable (cash in transit) outstanding, which stood at Rs. 1,842 million as on July 15, 2021. PMTPL's total debt at the end of FY21 of Rs. 1,259 million is lower than the historical levels of over Rs. 1,500 million in prior years except FY20. However, the amount of debt still remains high, commensurate to the operations, resulting in elevated overall gearing levels.

Declining financial profile over FY20-FY21 amid increasing competition and covid19 impact

PMTPL's total income has been on a declining trend over FY19-FY21, dipping 2%, 20%, and 22% y-o-y over this period owing majorly to lower revenue generation due to intense competition, which was further exacerbated by the covid19 pandemic. Over the last few years, the competition in remittance business has increased, with entry of some commercial banks, financial institutions, and other money transfer operators. This has led to an increased competition resulting in money transfer operators having to resort to more competitive rates. Consequently, PMTPL's market share in inwards

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

remittance declined by around 3% y-o-y in CY2020. Amid lower income, PMTPL's profitability has also deteriorated with PBILDT margin of 36% during FY21, well below the historical averages of over 40% in the previous three years. Consequently, net profit margin declined to 0.3% during FY21 compared to 5.2% during FY20.

Country-wise revenue concentration risk

PMTPL's inward remittance business has a high revenue concentration risk, in terms of source of remittance. Overall, the top 5 countries contribute to over 90% of PMTPL's total inward remittance business, in terms of transaction value. The gulf region is amongst the most popular destination for labour migration from Nepal and this region contributes to over 80% of PMPTL's total inward remittance business. Any unfavourable changes in the regulation regarding foreign exchange/money transfer, immigration rules, or natural calamities could severely impact the inward remittance scope from these countries.

Inward remittance dependent on economy and regulations of source countries

Inward remittance from foreign countries is majorly dependent on the economic performance and policies related to remittance of that country. Remittance business is also susceptible to tax structure, guidelines, regulations by regulatory authorities of these countries. Furthermore, domestic policies regarding tax structure on inwards remittance and work-related migration of Nepalese could also affect inflow of inwards remittance.

Moderate foreign exchange risk

PMTPL faces moderate foreign exchange risk in its inward remittance business as it receives payment from counterparties in around T+3 days in USD with real time exchange rates. The vagaries of the USD-NPR exchange rates expose the company to forex risks. The company does not generally hedge its forex exposure.

High interest outlay and interest rate risk

Sustained requirement for short-term working capital borrowings has led to a high interest expense for PMTPL (Rs.190 million in FY21). The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

Key Rating Strengths

Established market position in remittance business in Nepal with widespread network

PMTPL is a money transfer operator in Nepal and deals in both inward remittances as well as domestic money transfer. It is amongst the leading money transfer operators in Nepal. Daily average remittance transactions managed by PMTPL was around Rs.300 million during FY21. Including its collaboration with various banks and their branches, individual agents, and co-operative agents, PMTPL has a widespread network with over 12, 000 network spots spread across various locations in Nepal and abroad.

Experienced promoter & management team with long track record of operations

Incorporated on July 16, 2002, PMTPL is a part of the Prabhu group of companies. It has been operational in the money transfer business in Nepal for over 19 years. It is owned by Mr. Devi Prakash Bhattachan, who is the founding chairman for the Prabhu group of companies. He has over two decades of experience in the Nepalese financial sector and has a long history of success in various allied businesses. PMTPL also has experienced management team and the company is managed by Mr. Rameshwor Sapkota who has been involved in the remittance industry in Nepal for almost 20 years.

Remittance amongst the major contributors to national income

Remittance is an important source of national income in Nepal with over one-fifth of the country's gross domestic product attributable to formal remittance. It is a valuable source of foreign exchange to the government. PMPTL's established position as one of the leading money transfer operators in the country bodes well for its business profile. Backed by steady performance, except during FY21, which was majorly impacted by the pandemic, the company has a positive tangible networth of Rs. 352 million at the end of FY21 after accounting for the Rs. 66 million dividends payout in FY21. With the global economy slowly bouncing back to normalcy, the inward remittance industry is also on a recovery trend, which augurs well for the company's remittance business going forward.

About the Company

Prabhu Money Transfer Private Limited (PMTPL), incorporated on July16, 2002, is the remittance arm of the Prabhu group of companies. The company provides remittance to beneficiaries through a wide network of agents present across various locations in Nepal and outside. For collection outside of Nepal, the company has tie-ups with 25 companies/banks/FIs globally and their respective network. For domestic operations, PMTPL's network include around 6,000 banking (branches) agents, 3,000 individual agents, and around 3,000 co-operative agents. Prabhu is a particularly popular and reputed money transfer organization among the Nepalese in Malaysia, Qatar, Saudi Arabia, Kuwait, UAE, and USA among others.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, A)
Income from Operations	872	700	548
PBILDT Margin (%)	47.71	41.98	36.01
Overall Gearing (times)	2.56	1.87	3.57
Interest Coverage (times)	1.08	1.40	1.04
Current Ratio (times)	1.15	1.29	1.32
Total Debt/ Gross Cash Accruals (times)	65.93	19.04	124.59

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Hire Purchase Facility	4.30	CARE-NP BB- [Double B minus]
Short Term Bank Facilities	Fund Based Limits	1845.70	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	150.00	CARE-NP A4 [A Four]
Total		2,000.00	

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About CARE Ratings Nepal Limited:

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