

Tele Direct Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities - Working Capital Loans	500.00	CARE-NP A3	Assigned
Short Term Bank Facilities - Non-Fund Based Limits	400.00	CARE-NP A3	Assigned
Total Facilities	900.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP A3' to the short term bank facilities of Tele Direct Private Limited (TDPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TDPL derives strength from experienced promoters, association with reputed brand having strong market presence, growing scale of operations, comfortable operating cycle and moderate debt service coverage indicators. The rating also factors in established dealer network and increasing demand of mobile phones in Nepal. The rating assigned is however, constrained by supplier concentration risk, low profitability margins owing to limited pricing power, leveraged capital structure of the company on account of low capital base in FY21, technological risk and fortunes linked to performance of Xiaomi, stiff competition from other mobile phone players in the industry and exposure to regulatory risk.

Going forward, the ability of TDPL to sustain 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 Strengths

Experienced and resourceful promoters being a part of Ramesh Corp

TDPL is promoted by three individual promoters belonging to Ramesh Corp, a diversified business conglomerate in Nepal with presence in a broad range of business which includes manufacturing, service, import and trading. The group is known as Lucky Group and had established its presence in the early 1980's starting as an import and trading house and later moving towards manufacturing and other various sectors. TDPL is managed under the overall guidance of the company's board of directors who possess wide experience in various industries and trading business. Mr. Rohit Gupta, chairman of TDPL and also the vice-chairman of Ramesh Corp, has more than 12 years of experience. The promoters of the company have also been infusing funds into the company in the form of equity to fund the operational needs of the company.

Association with reputed brand and authorised distributor of Xiaomi mobile phone though exposed to supplier concentration risk

TDPL is an authorized distributor for Xiaomi Corporation (XC). XC has global presence and is a Fortune Global 500 company in 2020. XI is one of the largest smartphone manufacturers in the world with product portfolio comprising budget to premium phones hence, catering to various market segments and enabling company to achieve healthy sales. TDPL is the authorized distributor of Xiaomi mobile phones for regions outside Kathmandu valley. TDPL drives benefit from its association with Xiaomi and the same is evident from its growing scale of operations (2 years CAGR of 166%) as compared to the retailers/distributors of other brands in the business.

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

However, the company is exposed to the supplier concentration risk as TDPL deals only with the products (mobile phones and accessories) of XC under Xiaomi brand. Any change in marketing policies of XC may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its supplier's future growth plans.

Established dealer network

TDPL is the authorized distributor of Xiaomi products outside the Kathmandu region since last two years. The company has an adequate and established dealer network of 28 dealers in FY19 which further increased to 35 dealers in FY21. TDPL has been distributing its mobile phones to dealers throughout all major parts of the country outside Kathmandu valley. These dealers cover around 2,000 outlets across all major cities. With its robust sales channel, company has been able to achieve growth in sales.

Growing scale of operations and comfortable operating capital cycle

The scale of operations has been growing on y-o-y basis in last 3 FYs (FY19-FY21; FY refers to 12 months period ended-mid July 2021). The company has achieved total operating income of (TOI) of Rs. 7,997 Mn in FY21 (UA) and 3 years compounded annual growth rate was 166%. During Q1FY22 ending mid-October 2021, the company has already achieved sales of Rs. 3,317 Mn.

The growth in TOI was supported by increase in sales of number of handset sold. There is a continuous introduction of new models with variant price range, increasing preference of customers towards Xiaomi smartphones, increasing customer base with increasing dealers for the company all resulting into increase in quantity sales of its products.

The company imports its products from India and China and sells in the domestic market. The company does not get any credit period from its supplier and the procurement is backed by either sight letter of credit or against advance payment. TDPL has been providing credit period of around 30 days to its dealers. During FY21, TDPL had average collection period of ~4 days, average inventory holding period of ~4 days with operating cycle of ~7 days.

Increasing demand of mobile phones in Nepal

With rise in household income (which mainly comes from increasing remittance inflows) followed by mobile phones being part of daily life for every kind of activities, for every kind and age group of people, the demand of mobile phone has become very high. In addition to this, the demand for mobile phones has gone up significantly due to increase in online education / classes during pandemic. The growing demand of mobile phones in Nepal is likely to benefit companies like TDPL. However, this growth is limited by flourishing grey market which is hard to be controlled.

Key Rating Constraints

Low profitability margin owing to limited pricing power

The company's operating margins have been on the lower side during FY20 and FY21 owing to the trading nature of company's operations with limited pricing power and intense competition amongst various mobile phone brands. The PBIDLT margin stood range bound at around 3% during the said period.

Though the company has low profitability margins, the debt service coverage indicators remained satisfactory, marked by interest coverage and total debt GCA of above 2.5 times and below 2 x respectively for FY 20 and FY21.

Leveraged capital structure of the company on account of low capital base

The overall gearing of the company stood moderately leveraged at the end of FY21 on account of higher utilization of bank borrowings of Rs. 294 Mn at the year-end as the company purchases mostly in the form of imports which are backed by letter of credit. Further, the company's networth base was relatively small at Rs. 61 Mn at the end of FY20 which improved to Rs. 207 Mn at the end of FY21. With the low base of own funds, its operations are highly susceptible to any business shock, thereby limiting its ability to absorb losses or financial exigencies. Furthermore, it also results into increased vulnerability of its financial risk profile to any incremental debt. The high working capital requirements were met largely through working capital loans from banks (fund based and non-fund based).

Technological risk with fortunes linked to performance of Xiaomi

Technological obsolescence is an inherent risk in any technology related business and also applies to the mobile handsets distribution business. Normally mobile phones are high trending products and are impacted heavily by technological changes and changing consumer preference resulting to short life cycle. The manufacturers continuously evolve in next lot and series. However, the company's vendors provide significant support against technological obsolescence. Nevertheless, the company continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of the company being unable to liquidate the inventory.

Stiff competition from other mobile phone players in the industry

There is stiff competition among mobile phone brands in the whole world including Nepal. There are large number of developing brands as well as strong brand players. Further, the players are launching new model with new features time and often. Xiaomi'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 in the future as well. Stiff competition result in competitive pricing pressures in the market.

Exposure to regulatory risk related to mobile industry

TDPL 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. Later on in budget announcement for 2018-19, the provision was scrapped. Further, two and a half percent excise duty is imposed on import of mobile phone (earlier only 13% VAT was imposed on import) which result in total 15.83 percent taxes on import of mobile phones in Nepal.

Given the nature of industry, TDPL continues to remain exposed to various ecosystem challenges that include increasing competition, volatile exchange rates, technology obsolesce risk, product failures etc. The ability of the company to effectively manage these issues shall remain a key monitorable aspect. The company has a low bargaining power with the principle and may have to agree with any revised terms on contract renewal.

About the Company

Tele Direct Private Limited (TDPL) was incorporated on December 24, 2009 as a private limited company which is promoted by Mr. Rohit Gupta, Mr. Pratik Jalan and Mr. Sanjay Agrawal all belonging to Ramesh Corp. TDPL is a non-exclusive authorized distributor of Xiaomi smartphones and accessories for locations outside Kathmandu valley (Kathmandu valley includes Kathmandu, Bhaktapur and Lalitpur) since September, 2018.

Brief financials of TDPL for last three years ending FY21 and Q1FY22 are given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (UA)	Q1FY22 (UA)
Income from Operations	1,133	2,628	7,997	3,317
PBILDT Margin (%)	3.04	2.73	3.37	4.88
Overall Gearing (times)	5.49	0.50	1.42	1.74
Interest Coverage (times)	4.03	2.66	8.36	15.80
Current Ratio (times)	1.10	1.43	1.29	1.18
Total Debt/ Gross Cash Accruals (times)	8.02	0.90	1.64	3.36

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
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Short Term Bank Facilities	Non-Fund Based Limits	400.00	CARE-NP A3
Total		900.00	

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