

Tele Talk Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities - Working Capital Loans	505.00	CARE-NP A4+	Assigned
Short Term Bank Facilities - Non-Fund Based Limits	388.00	CARE-NP A4+	Assigned
Total Facilities	893.00		

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP A4+' to the short term bank facilities of Tele Talk Private Limited (TTPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of TTPL is constrained by declining operating margins (PBIDLT), leverage capital structure and weak debt service coverage indicators, working capital intensive nature of operations and foreign exchange fluctuation risk. The rating also factors in technological risk with fortunes linked to performance of Nokia, its presence in highly competitive industry and exposure to regulatory risk as well as reliance on third party supplier for its own brand products.

The rating, however, derives strength from experienced promoters, association with reputed brand and established dealership network and increasing demand of mobile phones in Nepal.

Going forward, the ability of TTPL 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 Constraints

Declining PBIDLT margins, leveraged capital structure and weak debt coverage indicators

Due to low value addition nature of the mobile distribution business, the profitability of the company continues to remain thin. Furthermore, PBIDLT margin of the company has been declining on y-o-y basis in last 3 FYs from 7.19% in FY19 (FY refer to 12 months period ending mid-July 2019) to 4.54% in FY21 which was led by change in product mix. Additionally, high finance cost also restricts the net profitability which stood below 0.20% in FY19 and FY20. Low profitability and high debt levels led to weak debt service coverage indicators as reflected from interest coverage of around 1.15 x and high total debt to GCA of above 65 times for FY19 & FY20. The coverage indicators had shown some improvement in FY21; however, continues to remain modest.

Total debt of the company increased from Rs. 681Mn in FY20 to Rs. 711 Mn in FY21 which included hire purchase loan of Rs. 2 Mn and working capital loan of Rs. 709 Mn. The capital structure of the company was leverage at the end of FY21 marked by overall gearing ratio of 3.64x.

Working capital intensive nature of operations

Almost full utilization of working capital limits during 12-months ending mid-July 2021 and weak liquidity ratios as on the last three balance sheet dates reflects working capital intensive nature of operations. The company imports Nokia smartphones from China and Nokia featured phones from Vietnam. The company gets the own brand phones (Colors) manufactured through OEM's from China. These phones are then sold in the domestic market. 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

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

is not getting credit period from suppliers (suppliers deliver product only against the letter of credit from banks or advance payment); however, it has been providing credit period to dealers against bank guarantee. Thus, the business depends heavily on working capital borrowings. TTPL has debtor collection period of ~46 days, inventory holding period of ~71 days and operating cycle of ~115 days in FY21.

Foreign exchange fluctuation risk

TTPL imports Nokia smartphones from China and Nokia featured phones from Vietnam. Further, Colors smartphones are manufactured through OEM's from China. The payment for the same is linked to USD, for which company is exposed to the foreign exchange fluctuation risk. TTPL does not undertake any hedging mechanism while importing mobile phones at foreign convertible currency. With increase in import of Nokia phones from FY20, company is further exposed to foreign exchange fluctuation risk. However, the company has the policy to pass on the fluctuation cost to the consumers to maintain the bottom line.

Technological risk with fortunes linked to performance of Nokia

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. Nokia'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 as well as reliance on third party supplier for product

TTPL 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, 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.

Also, TTPL's R&D team provides the design inputs to OEMs based in China for manufacture of products, the agreements for which are generally not long-term or exclusive in nature. This exposes company to the ensuing risk emanating from the dependence on third-party suppliers.

Key Rating Strengths

Experienced and resourceful promoters being a part of Ramesh Corp

TTPL is promoted by three individual promoters belonging to Ramesh Corp, a diversified business conglomerate in Nepal with strong presence in a broad range of business which includes manufacturing, service, import and trading. The group is earlier 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. TTPL 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 TTPL 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 established dealership network

HMD Global Oy (HMD) is a Finnish mobile phone company dealing in sales and marketing smartphones and feature phones under the Nokia brand from December 01, 2016. Nokia was the largest selling brand till mid-2000s before it lost majority of market share. After acquisition by HMD, Nokia has been one of the growing mobile brands globally with its growth in South Asian market as well. TTPL being sole and exclusive authorized distributor of Nokia mobile phones for whole of Nepal remarks important strength for the company and the group. This has enabled TTPL to establish a dealer network with total 38 dealers throughout Nepal.

Further, TTPL is the first manufacturer of mobile phones in Nepal having in-house brand-Colors, manufactured through OEM's in China. With fixation of prices for these phones done by TTPL itself resulting into price competitiveness, TTPL has been able to establish dealer network with total 35 dealers across all major cities throughout Nepal for sales of Colors phones. Also, 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. 2,108 Mn in FY21 (UA) and 3 years compounded annual growth rate was 39%. During Q1FY22 ending mid-October 2021, the company has already achieved sales of Rs. 722 Mn. The growth in TOI was supported by increase in sales of number of handset sold.

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. As per department of customs, during 10MFY21 ending mid-April, 6.36 Mn nos. of mobile phones were imported with total value of Rs. 32 Bn compared to import of 3.95 Mn nos. of mobile phones having value Rs. 14 Bn during same period FY20. This indicates growing demand of mobile phones in Nepal which is likely to benefit companies like TTPL. However, this growth is limited by flourishing grey market which is very hard to be controlled.

About the Company

Tele Talk Private Limited (TTPL) was incorporated on February 20, 2008 as a private limited company which is promoted by Mr. Rohit Gupta, Mr. Pratik Jalan and Mr. Sanjay Agrawal all belonging to Ramesh Corp. During the year 2012, the company had ventured into its own in-house brand named "Colors" under which mobile phones are manufactured through OEM done from China. Currently, the company is involved in sales of Colors branded phones and also Nokia phones all over Nepal.

Brief financials of TTPL 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	1,096	1,248	2,108	722
PBILDT Margin (%)	7.19	5.50	4.54	4.76
Overall Gearing (times)	4.05	4.34	3.64	3.48
Interest Coverage (times)	1.16	1.16	2.50	3.21
Current Ratio (times)	0.97	0.97	1.02	0.96
Total Debt/ Gross Cash Accruals (times)	65.08	79.62	16.10	33.52

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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Total	893.00		

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