

Neoteric Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	4.82	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	3,400.00	CARE-NP A4+ [A Four Plus]	Assigned
Total Facilities	3,404.82 (Three thousand Four Hundred Four Million and Eight Hundred Twenty Thousand 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 Neoteric Nepal Private Limited (NNPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NNPL are constrained by its leveraged capital structure with moderate debt service coverage indicators at the end of FY21 (Audited, refers to the twelve-month period ended mid-July 2021), working capital intensive nature of operation leading to high reliance on borrowings and exposure to volatile interest rate. The ratings also factor in technology risk associated with the telecommunications industry coupled with fortunes linked to performance of brand values of the respective companies and competitive nature of industry.

The ratings, however, derive strength from NNPL's long track record of operations along with experienced promoters and management team, association with reputed brands having strong and diversified market presence, established distribution network coupled with increasingly diversified product portfolio and improving financial performance in FY21.

Going forward, the ability of NNPL to maintain growth in the operation while maintaining profitability, and efficient management of working capital requirements leading to improved solvency indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly leveraged capital structure with moderate debt coverage indicators

The capital structure of the company stood leveraged at the end of FY21 with overall gearing ratio of 3.70x (including Letter of Credit acceptances), increasing from 3.44x at the end of FY20. The deterioration in the gearing ratio at the end of FY21 was on account of higher working capital borrowings and LC acceptances of the company to cater increasing scale of operations. NNPL's interest coverage ratio, however, improved to 3.09x in FY21 from 1.97x in FY20 owing to higher PBILDT generation of the company supported by increase in sales. Furthermore, total debt/GCA of the company also remained high at 10.32x at the end of FY21 as overall debt levels remain high relative to the current operations of the company. The higher gearing level of the company is also on account of net losses incurred by the company during FY15 and FY16 mainly related to the Nokia cell phone business. The same led to significant erosion of network. Amid increasing borrowing levels to support growing scale of operations, the company's gearing levels are likely to remain elevated over the near term.

Working capital intensive nature of operations leading to high reliance on bank borrowings

Distributorship business has inherent high working capital intensity due to high inventory holding requirements and a relatively high credit period offered to customers leading to a long collection period. NNPL has to maintain certain level of inventory to guard against supply shortages as the supply is totally dependent upon imports. Furthermore, NNPL provides substantial credit

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

period to its customers, leading to a high collection period which has been on an increasing trend over the last 3 fiscal years. The company also receives up to six months credit from its suppliers; however procurements are normally LC backed. As a result, the overall operating cycle of the company remains elongated leading to increased utilization of working capital facilities, both fund based as well as non-fund based. NNPL's net operating cycle was 85 days during FY21 with average collection period of around 101 days and inventory holding period of around 49 days. The average working capital utilization of fund based borrowings was around 80% for the past twelve months ending mid-August, 2022. Shortening of operating cycle leading to rationalized utilization of working capital facilities will be crucial from credit perspective.

Technology risk coupled with fortunes linked to performance of brand values of the respective companies

Technological obsolescence is an inherent risk in any technology related business and also applies to NNPL. Technology related products are exposed to the high risk of product obsolescence and are impacted heavily by technological changes and changing consumer preference. Hence, these products tend to have a short life cycle. They continuously evolve with time and technologies. This also leads to the fortunes of the company being highly linked with the fate of its associated brands. Although a more diversified product portfolio safeguards these risks to some extent, the company's performance remains directly linked to the performance of its suppliers.

Stiff competition from other players in technological industry

The Information Technology (IT) industry is, inherently competitive with presence of multiple small and large-scale companies. The growing competition in the industry exposes the company to typical industry risks such as ability to bag large-sized contracts and attrition of personnel, which may result in lower growth rates. The telecommunications industry remains susceptible to changes/emergence of advanced technologies and the company's ability to adapt to the evolving and advanced requirements of the clients remains critical for its business prospects.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward, with some upward revision in rates already happening from mid-September 2022. Any further rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Established track record of operations along with experienced promoters and management team in the related field

NNPL was established in 2004 and is one of the largest importer and distributor of Information and Communications Technology products in the country. NNPL is promoted by a single institutional promoter i.e. Him Electronics Private Limited and a group of individual promoters associated with the Golchha group. Golchha group is a pioneer industrial group in Nepal and operates over 100 companies within Nepal. The group has its presence in Automobiles, Electronics, Finance, Insurance, Bioscience and Alternative Energy sectors. NNPL is managed under the overall guidance of the company's Chairman Mr. Sanjay Golchha, who is also the Director of Golchha organization. He possesses more than two decades of experience in IT industry and is managing multiple companies including Neo Software Private Limited, Neo Technologies Private Limited, Hulas Education Private Limited,

Sakchha Technologies Private Limited among others. The management of NNPL comprises of seasoned professionals with adequate experience in the IT industry of Nepal.

Association with reputed brands having strong and diversified market presence

NNPL is the largest distributor for Dell Technologies in Nepal and the only company that trades the entire portfolio of Dell products. Dell Technologies Inc. is an American multinational technology company headquartered in Texas and develops, sells, repairs, and supports computers and related products and services.

Similarly, NNPL is an exclusive distributor for Nokia Corporation. Nokia Corporation is a Finnish multinational telecommunications, information technology, and consumer Electronics Corporation, established in 1865 and has the history of over 150 years. Nokia is among the global leaders in the telecommunications infrastructure business and on Internet of things technologies. Furthermore, NNPL has signed distributorship agreement with more than 30 brands like Haier, Microtex, HikVision, Logitech, Peoplelink, SAP etc, securing the company from the volatility in revenue base and profitability due to any sudden market shift.

Established distribution network coupled with diversified product profile

NNPL has an established distribution network with more than 1,000 channel partners. Additionally, the company itself owns five stores, which the company uses as information centers and customer relationship maintenance centers. The company channelizes distributors and retailers to facilitate end customers including both individuals and corporates and system integrators to facilitate the large customers and projects, allowing NNPL to provide a comprehensive variety of services to the customers.

NNPL has expanded its revenue profile to a multitude of products and services ranging from laptops to consumer electronics, computer accessories & peripherals, surveillance and video conferencing and specialization and software solution. NNPL also sells necessary supplies for the telecom and broadband internet to the major broadband providers in Nepal namely, Worldlink Communication Private Limited, Nepal Doorsanchar Company Limited, Subisu Cablenet Limited, Vianet Communication Limited, etc. Similarly, NNPL provides IT infrastructure and support to the both government-leveled and private leveled clients including banks, financial institutions, MNCs and other large enterprises.

Improving financial performance marked by growing sales and steady profitability

During FY21, NNPL's Total Operating Income (TOI) grew to Rs. 3,779 Mn, boosted by the rapid increase in IT adoption in Nepal, particularly amid the pandemic, supported also by the increasingly diversified product portfolio of the company. NNPL derives its total income from sale of various IT related goods and services. PBILDT margin of the company remains steady at around 6-7%. However, net profitability of the company improved in FY21 owing to lower interest cost and depreciation. Supported by improved product portfolio, the company's TOI is expected to have increased in FY22 and the trend is likely to continue over the near term.

Stable growth prospect of the industry

The information technology has become a essential part of human lives, flooding us with information, ideas, and giving rise to many businesses. Furthermore, the chaos of the recent pandemic outbreak has made a significant contribution to the growth of technology users worldwide. Companies have been increasingly pushing the envelope of technology in order to gain competitive advantage followed by individual level of IT awareness. With the rise in IT adoption, backed up by increasing financial literacy in public, emerging work from home concepts and higher reliance in the technological aspects, the market of IT industry is booming. Although Nepal's leap towards IT adoption is in a nascent stage, the public level awareness and corporate level penetration both in the private and public sector supports the growing market prospect in future.

About the Company

Neoteric Nepal Private Limited (NNPL) was incorporated on August 16, 2004 as private limited company domiciled in Nepal. NNPL is engaged in trading of various items related to the IT sector and is an authorized dealer of Dell Laptops and Server throughout Nepal. The company is also an authorized distributor of telecom equipments of Nokia Corporation. NNPL has association with more than 30 brands and deals with diversified product range of more than 1,000 products.

NNPL has signed distributorship agreement with Nokia, Dell Technologies, Dell EMC, HikVision, Logitech, Peoplelink, SAP and many more. NNPL has been operating through its five showrooms/ offices of its own coupled by market presence throughout Nepal from its intensive distribution channel.

Financial Performance

Particulars	2019 (12m, A)	2020 (12m, A)	2021 (12m, A)
Income from operations	1,929	2,327	3,788
PBILDT Margin (%)	4.91	6.36	6.12
Overall Gearing (times)	3.48	3.45	3.70
Interest coverage (times)	1.22	1.97	3.09
Current Ratio (times)	1.27	1.26	1.23
Total Debt to Gross Cash Accruals (times)	46.48	13.65	10.34

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	4.82	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Fund Based Limit	955.00	CARE-NP A4+ [A Four Plus]
Short Term Bank Facilities	Non-Fund Based Limit	2,445.00	CARE-NP A4+ [A Four Plus]
Total Facilities		3,404.82	

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About CARE Ratings Nepal Limited:

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Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

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