

## Vigyapan Tech Private Limited (Revised)

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,383.87	CARE-NP BB- [Double B Minus]	<b>Assigned</b>
Short Term Bank Facilities	100.3	CARE-NP A4 [A Four]	<b>Assigned</b>
<b>Total Facilities</b>	<b>2,484.17</b> <b>[Two Thousand Four Hundred Eighty-Four Million and One Hundred Seventy Thousand Only]</b>		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Vigyapan Tech Private Limited (VTPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of VTPL are constrained by its high debt funded acquisitions and related operations stabilization risk of these acquisitions under VTPL. The ratings also factor in VTPL's presence in an increasingly competitive technology based industry with fragmented market, working capital intensive nature of operations leading to higher reliance on borrowings, exposure to foreign exchange fluctuation risk, interest rate risk and government policy towards Internet Service Providers (ISPs).

The ratings, however, derive strengths from the long track record of operations of the businesses acquired by VTPL in digital TV industry, its experienced promoters and management team. The ratings also factor in VTPL's diversified revenue base and increased effort for market penetration. The ratings assigned also take note of the increase in subscriber base of VTPL in both digital TV and ISP business, which is likely to aid in revenue generation going forward, albeit with declining trend in average revenue per customer amid increased competition.

*Going forward, the ability of the company to maintain the growth in revenue, while improving profitability and efficient working capital management leading to lower dependence on borrowings will remain the key rating sensitivities. Also, the ability of the company to withstand the increasingly competitive business environment in internet business and maintain market share as well as any substantial debt funded capital expenditure impacting the overall financial risk profile of the company also remains the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### High debt funded acquisitions and related stabilization risk in technology based industry

In September 2022, VTPL has purchased assets of Divine Stream Network Private Limited (DSN) along with acquisition of 80 smaller local cable operators in order to expand its market reach and penetration in both television and internet market. The total cost incurred by VTPL for the acquisition is being funded in debt equity ratio of 77:23. Owing to the highly debt funded capex, the company's capital structure is likely to remain leveraged over the near term. Swift stabilization of the newly acquired business leading to revenue generation at envisaged levels will remain key from credit perspective.

Furthermore, it is an inherent nature of digital TV and internet service industry to require regular capital investments and long gestation period necessitating substantial funding support. Owing to capital intensive nature of industry, there are huge requirements of funds for upgradation of existing infrastructure by way of procurement of latest technology assets to increase

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

the scope of services. Moreover, these services also require large investments to support the growth in scale of operations. Furthermore, as the needs of the market evolve, it is important that Digital TV operators are agile enough to update the same. The ability of the company to withstand the increasingly competitive business environment of TV and internet business and maintain low leverage profile despite higher capex plans remains the key rating sensitivity.

**Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature as it has to invest huge amounts on network devices and customer premises equipment (CPE) including set up box, routers and other accessories. Generally, the company imports these equipments by opening letter of credit (LC). VTPL opens sixty days usance LC for the import of network equipments and CPEs. However, full recovery of the same from the customers happens on due course of time which results into high reliance on working capital loans.

**Exposed to foreign exchange fluctuation risk**

VTPL imports various equipments from other countries for its operations and has payables in foreign currency. Furthermore, bandwidth expenses to some vendors are also done in USD. However, SCL has no earnings in foreign currency. Hence, the company is exposed to foreign exchange fluctuation risk. The company currently does not hedge its foreign exposure. Furthermore, due to high dependence on the imports of equipment, the company is also exposed to unfavourable changes in the government policy of the exporting country which might impact on the business and its growth.

**Increasing competition in the industry**

With increasing digitalization, number of digital media has grown significantly over the last decade or so. Similarly, ISPs have been increasing significantly in the country with the surging demand for internet services. As on mid- July 2022, there were 60 licensed ISPs operating in Nepal with total internet subscriber base of around 2.23 million. The competitors for internet and related network service providers also include existing telecommunications companies planning to foray or increase their presence in this segment. Predatory pricing of any new entrant in this segment may also adversely impact market share and APRU levels thereby affecting its profitability margins. Going forward, the proliferation of Over-The-Top (OTT) platforms due to availability of internet access at cheaper rates and growing penetration of smartphone and Smart TVs segment is further expected to add competitive pressure in the digital TV industry.

**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, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant 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

### Long track record of operation in digital TV industry with reasonable subscriber base

Digital TV business acquired by VTPL of DSN has long track record of over 26 years in Nepal. DSN was established in 2016 to provide services of cable TV under the brand name of MeroTV. DSN later acquired Sky Cable TV Private Limited (Sky Cable) on May 2019 and started to operate the cable/digital TV business under the established brand name of SKY. Incorporated on 1996, Sky Cable had been operational in Nepal for over two decades in the cable TV industry. Subsequent to the acquisitions, VTPL now has a wide coverage in the country with presence in all 7 provinces of Nepal with 105 branches and 80 local cable operators as on November 2022. VTPL currently has total subscriber base of 0.28 Mn for digital TV and 0.11 Mn for internet services.

### Experienced promoters & management team

VTPL has three experienced promoters who also make up its board of directors. VTPL's board is chaired by Mr. Surendra Chhetri, who is director of Web Surfer Nepal Communication System Private Limited. Ms. Bhoj Kumari Arjel, director, is also director of Web Surfer Nepal Communication System Private Limited (ISP). The board is supported by an experienced team across various functions.

### Increased efforts for market penetration

Although most of the company's revenues comes from Bagmati Province (which includes Kathmandu valley), VTPL has been focusing on increasing its presence in other provinces as well with a view to reducing dependence on one particular area. The company is venturing into rural Nepal to provide reliable and affordable digital TV and internet services. Also, in order to increase penetration of both digital TV and internet market, it has been acquiring various regional local cable operators and also promoting and introducing affordable pricing plans in villages and other rural centers.

### Diversified revenue base in terms of service

VTPL offers a wide array of services to a well-diversified client base. The company generates revenues from retail internet, enterprise internet and intranet, television subscription from digital TV and IP TV. Backed by diversified service offerings along with its other sister concerns (including Websurfer Nepal Communications Private Limited and Nepal Digital Services Private Ltd, which imports and sells bandwidth), DSN has been able to create a customer base across business segments. VTPL has a well-diversified clientele base that includes individuals, families, small retail businesses, and large enterprises including government and private/public institutions such as hotels and banks for broadband services thus reducing the customer concentration risk.

## About the Company

Vigyapan Tech Private Limited (VTPL) is private limited company, incorporated in September 16, 2018 engaged in providing services of digital TV, IP TV under brand name of SKY Cable and high speed fiber internet solutions under brand name of Web surfer. VTPL has presence in all 7 provinces with more than 105 branches, 80 Local Cable Operators (LCO). As on November 2022, VTPL has total 260 High Definition (HD) Channels.

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	2,383.87	CARE-NP BB-
Short Term Bank Facilities	Working Capital	100.3	CARE-NP A4
<b>Total Facilities</b>		<b>2,484.17</b>	

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