

## Prabhu Money Transfer Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	2.70	<b>CARE-NP BB- [Double B minus]</b>	<b>Reaffirmed</b>
Short Term Bank Facilities	1,595	<b>CARE-NP A4 [A Four]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,597.70 (One Thousand Five Hundred Ninety Seven Million and Seven Hundred Thousand Only)</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long term bank facilities and 'CARE-NP-A4' assigned 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 continue to be constrained by its leveraged capital structure, working capital intensive nature of operations and below average financial performance of the company in FY22 (Unaudited; FY refers to the twelve- months period ended mid-July) amid slowdown in pace of inward remittance growth during FY22 coupled with increasing competition resulting in increased pressure on earnings. The rating also factors in geography-wise revenue concentration risk, high interest outlay and volatile interest rate risk, foreign exchange fluctuating risk, and regulatory risk.

The ratings, however, derives strength from PMTPL's established market position in the remittance sector in Nepal, widespread distribution network, experienced promoter and management with long track record of operation in the money transfer business.

*Going forward, the ability of PMTPL to achieve healthy growth in remittance business while maintaining adequate profitability and improved liquidity profile will be the key rating indicators. The company's ability to manage foreign exchange risks and lower borrowing levels leading to improved capital structure would also 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 5.0 times at the end of FY22 (FY21: 4.96x) mainly because of higher levels of working capital borrowings coupled with deteriorated tangible net worth due to net losses during FY22. 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 from remittance party outstanding. Consequently, the amount of debt remains high commensurate to the operations resulting in elevated overall gearing levels. The ability of the company to maintain lower gearing levels by rationalizing its working capital debt requirement would remain key monitorable aspect.

#### Declining trend in operating performance amid increasing competition

During FY22, PMPTL's total operating income declined by 12% year-on-year to Rs. 444 Mn on account of lower revenue generation due to lower number of remittance transactions during FY22 compared to prior year, majorly owing to sluggish

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

pace of inward remittance coupled with increasing competition. 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 to retain the network. Amid lower income, PMTPL's reported net losses during FY22.

However, the company has identified new business opportunities in previously untapped countries where Nepalese diaspora is increasing in recent years such as Canada, South Korea, Japan among others. The company is also an agent for Western Union Money Transfer in Nepal, which has global reach and brand presence. PMTPL is trying to increase penetration in these geographies, which is likely to help the company diversify its revenue base over the medium term.

### **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 results in a high interest expense for PMTPL. The company's interest expense is based on floating rates which reset every quarter. 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 increased base rates of BFIs in the first half of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position.

### **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. Market share of the company is in the mid-single digits. 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 20 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. PMPTL's operational performance had remained pretty steady until the covid pandemic, which majorly impacted the company's operations in FY21 and FY22. Further, the competitive pressure from other MTO and banks in the remittance industry along with stringent regulatory requirement restricting prefunds of remittances to customers has also impacted the market share of the company in FY22. However, 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,	2020	2021	2022
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	700	548	441
PBILDT Margin (%)	41.98	36.01	36.44
Overall Gearing (times)	2.53	4.96	5.16
Interest Coverage (times)	1.40	1.04	0.98
Current Ratio (times)	1.29	1.32	1.29
Total Debt/ Gross Cash Accruals (times)	19.04	127.66	5,823.01

A: Audited, UA: Unaudited

### 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	1,585.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	10.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,597.70</b>	

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