Apex Manokamana Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Rating[1]	Rating Action
Short Term Bank Facilities	**730.00**	**CARE-NP A4+ [A Four Plus]**	**Reaffirmed**
Total Facilities	**730.00 (Seven Hundred Thirty Million Only)**		

** Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A4+' assigned to the short-term bank facilities of Apex Manokamana Private Limited (AMPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of AMPL continues to remain constrained by its leveraged capital structure with modest debt service coverage indicators and working capital intensive nature of operations leading to reliance on bank borrowings. The rating also factors in technology risk coupled with fortunes linked to performance of Vivo, exposure to volatile interest rate and foreign exchange rate fluctuation risk and stiff competition in the industry. The rating, however, derives strength from experienced promoters and management team, moderate financial performance with increasing demand for mobile phones in Nepal, moderate financial position and association with strong brand (Vivo) as authorized regional distributor with established distribution network.

Going forward, the ability of the company to profitably scale up of its operations while efficiently managing the working capital cycle will be the key rating sensitivities. Also, the ability of the company to withstand the increasing competitive business environment in smartphone industry including various ecosystem challenges such as technology obsolescence risk, product failures etc. will also be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure with moderate debt service coverage indicators

The capital structure of the company stood leveraged with overall gearing ratio at 3.94x at the end of FY22 (including Letter of Credit acceptances), which improved from 5.99x at the end of FY21 on account of improvement in tangible net worth due to additional equity infusion of Rs. 10 Mn coupled with lower utilization of fund based working capital borrowings on the balance sheet. Interest coverage ratio stood moderate at 1.88x during FY22 which deteriorated from 2.16x during FY21 on account of increased interest expenses. Furthermore, total Debt/GCA was high at 25.79x in FY22 which increased from 19.02x in FY22 due to lower Gross Cash Accruals (GCA).

Working capital intensive nature of business amid moderate liquidity ratios

AMPL's only debt remains working capital related short-term borrowings and its liquidity position stood moderate as reflected from the current ratio of 1.24x at the end of FY22.

Mobile phone distributorship business is working capital intensive in nature. AMPL 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's procurement is against letter of credit, mostly at sight. While its supplies to dealer are against bank guarantees and security deposits, it does give moderate credit period to its dealers. The average collection period was 61 days during FY22 (FY21: 54 days).

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

Inventory holding period increase to 49 days in FY22 from 27 days in FY21 on account of change in mode of transportation for import during the year leading to increase in lead time. Consequently, operating cycle increased to 109 days during FY22 from 81 days during FY21. The average month end working capital utilization stood high at around was ~94% during the last nine months ending Mid- January, 2023. The ability of AMPL to efficiently manage working capital requirements leading to lesser dependence on borrowings would be critical from credit perspective.

Exposure to volatile interest rate and foreign exchange fluctuation risk

Sustained requirement for short-term working capital borrowings has led to a relatively high interest outgo for AMPL (Rs. 32 Mn during FY22), impacting its net profitability. The company's interest rates are based on 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. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Furthermore, AMPL's operations is also exposed to foreign currency exchange rate fluctuation risk as it imports mobile phones from China with pricing in USD. During FY22, AMPL incurred foreign exchange loss of Rs. 9 Mn during FY22 compared to foreign exchange gain of Rs. 4 Mn during FY21. AMPL does not hedge its forex exposure however, the risk is mitigated to some extent by arrangement with the supplier to bear forex loss beyond certain amount.

Technology risk coupled with fortunes linked to performance of Vivo

Technological obsolescence is an inherent risk in any technology related business and also applies to AMPL. Normally mobile phones are high trending products and are impacted heavily by technological changes and changing consumer preference resulting in short life cycle of the products. They continuously evolve with time and technologies. However, the company's vendor provides some 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. Furthermore, AMPL is a distributor of Vivo mobile phones only. As a result, the company's performance is directly linked to and solely dependent on the performance of Vivo mobile phones in the country.

Stiff competition from other mobile phone players in the industry

Smartphone industry is, inherently competitive with presence of handful of well-established as well as emerging brands offerings with new model/variants launched, multiple times in a year, with new features and technology. Vivo's main differentiator has been its innovative features at attractive price points. However, amid increasing competition from other low-cost players, maintaining the differentiation and sustaining market share is becoming increasingly challenging. Furthermore, stiff competition also results in competitive pricing pressures in the market leading to squeezed margins.

Key Rating Strengths

Experienced promoters and management team

AMPL is promoted by four individual promoters who belongs to Apex group, which has presence in manufacturing, hydropower, real estate and trading sectors among others. Mr. Mukunda Prasad Timilsina, chairperson, has around 18 years of cross sector experience. He is also director of United Modi Hydropower Limited (UMHL) and other diversified businesses. Mr. Sudhir Prasad Timilsina, vice chairperson, has more than a decade of experience in various sector. He is also director of Shubhashree Agni Cement Pvt. Ltd. [CARE-NP BB+/A4+] and managing director of UMHL. BODs are further supported by experienced teams across various functions/ departments.

Moderate financial performance

AMPL derives its income from sale of Vivo mobile phones. The company's total operating income has been growing on y-o-y basis and CAGR for last 4 years (FY19-FY22) was ~15%. During FY22, total operating income (TOI) of the company increased by ~3% to Rs. 1,338 Mn. However, total quantity sales slightly declined to 85,526 in FY22 from 87,971 units in FY21. Quantity sales was relatively higher during FY21 amid the pandemic where the demand for mobile phones were higher. Despite decline in quantity sales, PBILDT margin improved by 47 bps to 4.44% during FY22. With high interest outgo, however, PAT margin stood low at 0.89% during FY22 (FY21: 1.56%). Supported by increasing demand for phones and discontinuation of import restrictions for high value mobile phones, a steady growth in the scale of operations is likely over the medium term as the brand strives to increase its presence in the country.

Association with reputed brand as authorized distributor and established distribution network

Vivo Communication Technology Co. Ltd. (Vivo), is a Chinese technology company known for its budgeted smartphones and holds reasonable market share in developing countries like Nepal. In Nepal, Vivo has two authorized distributors as on date, one being AMPL. AMPL is the authorized distributer of Vivo mobile phones in Bagmati, Narayani and Janakpur zone of Nepal which covers around 50% market in Nepal. Representing authorized dealership of a global emerging brand with continuous product update augurs well for the company's business prospects. Furthermore, the company has an established dealer network of 22 dealers as on mid-April 2023.

About the Company

Apex Manokamana Private Limited (AMPL) was incorporated on August 10, 2017 as private limited company and is an authorized distributor of Vivo smartphones and accessories for central Nepal (i.e. Bagmati, Narayani and Janakpur zone of Nepal). It came into operation from November 7, 2017. The company entered into distributorship agreement with supplier Mega Wisdom Ltd having registered office at Samoa.

Financial Performance

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,149	1,295	1,338
PBILDT Margin (%)	4.05	3.97	4.44
Overall Gearing (times)	4.00	5.99	3.94
Interest coverage (times)	2.13	2.16	1.88
Current Ratio (times)	1.20	1.15	1.24
Total Debt/Gross Cash Accruals (times)	12.02	19.02	25.79

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Working Capital Limit	730.00	CARE-NP A4+ [A Four Plus]
Total		**730.00**	

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About CARE Ratings:

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