

Rating Rationale

Apex Manokamana Private Limited

Rating

Facilities	Amount (Rs. In Million)	Rating ¹	Remarks
Short Term Bank Facilities	730.00	CRE-NP A4+[A Four Plus]	Reaffirmed
Total Facilities	730.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating ‘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 bank facilities of Apex Manokamana Private Limited (AMPL) continues to be constrained by short track record of operations, leveraged capital structure, exposure to regulatory risk related to smartphones industry, foreign exchange rate fluctuation risk and technology risk coupled with fortunes linked to performance of Vivo. The rating also factors stiff competition from other mobile phone players in the industry and exposure to volatile interest rate.

The rating, however, derives strength from experienced promoters being part of Apex group of companies, association with strong brand (Vivo), as authorized distributor of mobile phone in major parts of Nepal, established dealer network, growing scale of operations and moderate operating cycle.

Going forward, the ability of the company to profitably scale up its operations while efficiently managing the working capital cycle will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations with leveraged capital structure

AMPL started its commercial operations from November 2017 and has a relatively short track record of operations as compared with other established players; however, the experience of the management and being part of Apex Group partially offsets this risk.

The overall gearing ratio of the company was high at 4x at the end of FY20, which improved from 4.76x at the end of FY19 due to increase in net worth on account of accretion of profits to net worth. The company had leveraged capital structure due to high dependence on external borrowing to meet its working capital requirement and its low net worth base. On account of high debt levels. Total Debt/GCA was high at above 12x in FY20 which had deteriorated from 9.82x in FY19 on account of increase in debt levels.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 years. Therefore, funding from BFIs is subject to volatile interest rate.

Foreign exchange fluctuation risk

AMPL imports mobile phone and its accessories from China. The pricing of imported mobile phones and accessories is in USD. AMPL has no practice of hedging for fluctuation in foreign currency value which exposes it to the high risk associated with the fluctuation in foreign currency exchange rate. However, the foreign currency fluctuation risk is mitigated to some extent by arrangement with the supplier to bear foreign exchange gain/loss beyond certain amount.

Technology risk coupled with fortunes linked to performance of Vivo

Normally mobile phones are high trending products and impacted heavily by technological changes and changing consumer preference hence it has a short life cycle. Present market leadership and sales success doesn't guarantee future leadership. Brands like Vivo which have comparatively lower brand value compared to industry brands like Samsung and Apple need to come up with more innovative, value added and featured product on each next product release to maintain and grow the market share. However, AMPL is importing product frequently instead of importing at a time in bulk quantity which lead to low level of inventory. Due to low level of inventory there is no such big impact to company if any product it has imported is out of the market. If any product is out of market, then the company will liquidate the product by providing discount and the loss will be shared between AMPL and the supplier. However, there is no agreement regarding how much loss will be borne by the supplier and AMPL.

AMPL has been dealing with vivo mobile phones only. As a result of this sole dependence on Vivo mobile products only; management effort, internal marketing and other things remaining constant, the brand value and performance of vivo brand as a whole directly affects the performance of AMPL.

Stiff competition from other mobile phone players in the industry

There is stiff competition among mobile phone brands in Nepal. There are large number of similar brand players in market like Huawei, Nokia, OnePlus, Oppo, Xiaomi etc. and strong brand players like Samsung and Apple as well. Furthermore, the players are launching new models with new features. Vivo'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 future as well. Stiff competition result in competitive pricing pressures in the market.

Exposure to regulatory risk related to mobile industry

AMPL is partially constrained by regulatory risk arising from various laws and policies relating to mobile industry. Earlier, before FY 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 with import tariff levied at 5%. However, from the budget announcement for 2019-20, the import tariff was reduced by half to 2.5% on import of mobile phones to promote the digital economy in Nepal. Presently, there is an import tariff rate of 2.5% along with 13% VAT which result in total ~15.83 percent taxes on import of mobile phones in Nepal.

As the mobile phone industry has grown very rapidly in the last few years, grey market supply and demand has also gone up significantly. Due to high taxes on import of mobile phones, many mobile phones are entering in Nepal illegally avoiding custom offices. As a result, the illegal mobile phone importers started selling at cheaper price.

Key Rating Strengths***Experienced promoters being a part of Apex Group of companies***

AMPL is promoted by four individual promoters who belong to the Apex Group. Apex Group has presence in manufacturing, hydropower, real estate and trading sectors. The company is managed under the overall guidance of the company's board of directors who possess wide experience in various industries and trading business. Mr. Mukunda Prasad Timilsina, chairperson of AMPL, is also the chairperson of Samrat Cement Company Pvt. Ltd, [CARE-NP BB/A4]. Mr. Sudhir Prasad Timilsina, vice chairperson of AMPL, is director of SCCPL and Shubhashree Agni Cement Pvt. Ltd. [CARE-NP BB+/A4+].

Association with reputed brand as authorized distributor and established distribution network

Vivo is best known for its budgeted smartphones and holds large market share in developing countries like Nepal. In Nepal, VCT has two authorized distributors as on date; one being AMPL. AMPL is the authorized distributor of Vivo mobile phones in Bagmati, Narayani and Janakpur zone of Nepal which covers around 57% market in Nepal. Representing authorized dealership of such a global emerging brand remarks important strength of the company.

Growing scale of operations and moderate operating margins

AMPL derives its income from sale of Vivo mobile phone. During FY20, AMPL reported growth in sales revenue by ~29% over FY19 due to increase in number of mobile phones sold during the year. Till April 13, 2021, the company has achieved total revenue of Rs. 1,076 Mn with 70,783 units of mobile phones sold. The company's profitability margins have been on the lower side owing to the trading nature of the business and intense market competition in the industry. This apart, interest burden on working capital borrowing also dents the net profitability of the company. The PBILDT margin of the company has been range bound in between 4.00-4.50% in the last 3 financial years (FY18-FY20); however, net margin has

been declining on y-o-y basis on account of increase in interest expenses. Though net margins declined, it continued to remain at moderate levels. In H1FY21, the company has booked net profit of Rs. 18.34 Mn.

Moderate operating cycle

Liquidity profile is moderate as reflected from moderate average utilization of working capital bank borrowings at around 83% for the past 12 months ending mid-April 2021. Current ratio is also moderate at 1.19 times at the end of FY20. Liquidity is supported by retention of profits and low inventory levels. The company purchases mainly in the form of imports and keeps an inventory of around 7 days. However, being a highly competitive business, the company has to extend credit period to its customers and the average collection period remained moderate at around 49 days during FY20, whereas the company has to make immediate payment to its suppliers.

About the Company

Apex Manokamana Private Limited (AMPL) was incorporated on August 10, 2017 as private limited company and is 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. AMPL does not have any owned showrooms and all sales are through dealers.

Brief Financial Performance of AMPL during last 3 years ending in FY20 is given below:

(Rs in Million)

Particular	FY18 (A)	FY19 (A)	FY20 (A)
Period of Operation	12 months	12 months	12 months
Income from operations	553	891	1,149
PBILDT Margin (%)	4.57	4.11	4.05
Overall Gearing (times)	6.47	4.76	4.00
Interest Coverage ratio (times)	3.15	2.61	2.13
Current Ratio	1.11	1.17	1.19
Total Debt to Gross Cash Accruals (times)	15.55	9.82	12.02

*(A)-Audited

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Annexure 1: Details of the Facilities Rated

Nature of Facility	Type of Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Overdraft	30.00	CARE-NP A4+
Short Term Bank Facilities	Working Capital	45.00	CARE-NP A4+
Short Term Bank Facilities	Trust Receipt Loan/Short Term Loan	350.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Trust Receipt Loan/ Short Term Loan	305.00	CARE-NP A4+
Total		730.00	