Apex Manokamana Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short Term Bank Facilities	730.00	**CARE-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 of 'CARE-NP A4+' assigned to the short-term bank facilities of Apex Manokamana Private Limited (AMPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of AMPL factors in the leveraged capital structure of AMPL with moderate debt coverage indicators. The rating remains constrained by AMPL's working capital intensive nature of operations, technology risk coupled with fortunes linked to performance of Vivo, exposure to volatile interest rate and foreign exchange rate fluctuation risk, stiff competition in the industry and exposure to regulatory risk related to smartphone industry.

The rating, however, derives strength from experienced promoters, association with strong brand (Vivo) as authorized regional distributor with established distribution network. The rating also factors in growing scale of operations with moderate profitability margin and increasing demand for mobile phones in Nepal.

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 mobile phone 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 coverage indicators

The overall gearing ratio of the company was high at 4.49x at the end of FY21 (Audited, refers to the twelve-month period ended mid-July 2022), which increased from 4.00x at the end of FY20 due to increased short term loan utilization at the end of FY21 owing to increasing scale of operations. Total Debt/GCA was high at 14.40x in FY21 which deteriorated from 12.02x in FY20 on the back of stagnated Gross Cash Accrual coupled with increase in working capital loan by Rs. 117 Mn. Furthermore, interest coverage remained moderate at 2.12x during FY21 (FY20: 2.13x). With sustained need for working capital borrowing, debt coverage indicators are likely to remain moderate over the medium term, albeit steady improvement is expected owing to increasing operations.

Working capital intensive nature of operation

The operations of the company are working capital intensive in nature. AMPL has to maintain certain level of inventory to avoid stock out problem as the supply is totally dependent on 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 dealersAs a result, the overall operating cycle of the company remains slightly elongated leading to increased dependence on working capital borrowings. The company's net operating cycle was 81 days during FY21 with

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

average collection period of around 55 days and inventory holding period of around 27 days. The average working capital utilization level was around 73% for the past nine months ending mid-January, 2022.

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 the mobile phone distribution business. 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. The manufacturers continuously update their product portfolio to keep up with the changing consumer taste, which leads to obsolescence risk, particularly for any slow moving models. 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.

Exposure to volatile interest rate and foreign exchange fluctuation risk

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate. Furthermore, AMPL's operation is also exposed to foreign currency exchange rate fluctuation risk as it imports mobile phones from China with pricing in USD. 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.

Stiff competition from other mobile phone players in the industry

There is stiff competition among mobile phone brands in Nepal with presence of a handful of well-established as well as emerging brands. Furthermore, these players continually update their 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.

Exposure to regulatory risk related to mobile industry

AMPL remains exposed to regulatory risk arising from various laws and policies relating to the mobile industry. The Government of Nepal (GoN) in April 2022 have put restrictions on importing of certain non-essential items which included mobile phones with value in excess of 600 USD per unit. AMPL's mobile phones range below 600 USD, and is not directly impacted by the imposition. However, the declining liquidity in the economy has led to a sluggish demand scenario, at least over the near term.

Key Rating Strengths

Experienced promoters and management team

AMPL is promoted by four individual promoters who belong to Apex group, which has presence in manufacturing, hydropower, real estate and trading sectors among others. The company is managed under the overall guidance of its board of directors who possess wide experience in various industries and trading business. Mr. Mukunda Prasad Timilsina, chairperson, is director of United Modi Hydropower Ltd and also involved in other diversified businesses. Mr. Sudhir Prasad Timilsina, vice chairperson, is director of Shubhashree Agni Cement Pvt. Ltd. [CARE-NP BB+/A4+]. The BOD is supported by management team with experience in related business.

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 57% 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-January 2022.

Growing scale of operations and moderate operating margins

AMPL derives its income from sale of Vivo mobile phones and reported sales of Rs. 1,295 Mn during FY21, up 13% year on year, boosted by increase in sales volume to 87,971 units in FY21 from 76,686 units in FY20. PBILDT increased to Rs. 52 Mn during FY21 compared to Rs. 47 Mn in FY20, however, PBILDT margin remained steady at 4.00% in FY21 as compared to 4.05% in FY20. PAT also increased to Rs. 20 Mn during FY21 from Rs. 15 Mn during FY20, supported by increase in revenue. The company's profitability margins have been on the lower side owing to the trading nature of the business and intense competition in the industry. This apart, interest burden on working capital borrowing also restricts the net profitability of the company. Amid increasing demand for mobile phones in the country, boosted by rise in household income, coupled with a good value for money proposition of the Vivo 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.

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. AMPL does not have any owned showrooms and all sales are through dealers.

Brief financial performance of AMPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY19(A)	FY20 (A)	FY21(A)
Income from Operations	891	1,149	1,295
PBILDT Margin(%)	4.11	4.05	4.00
Overall Gearing (times)	4.76	4.00	4.51
Interest coverage (times)	2.61	2.13	2.12
Current Ratio(times)	1.17	1.19	1.15
Total Debt/Gross Cash Accruals(times)	9.82	12.02	14.40

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	Fund Based Limits	555.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Fund Based Limits	175.00	CARE-NP A4+
Total		**730.00**	

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About CARE Ratings:

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