

OBCI Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1.22	CARE-NP B- [Single B Minus]	Assigned
Short Term Bank Facilities	598.91	CARE-NP A4 [A Four]	Assigned
Total Facilities	600.13 (Six Hundred Million and One Hundred Thirty Thousand Only)		

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of OBCI are constrained by its highly leveraged capital structure with weak debt service coverage indicators and elongated working capital cycle owing to substantial unrealized debtors leading to poor liquidity position of the company. The ratings also factor in fluctuating operating income of the company over FY20-FY22 (Audited; FY refers to the twelve-month period ending mid-July), exposure to volatile interest rate, technology risk coupled with fortunes linked to brand values and performance of the respective companies whose products OBCI is dealing in the domestic market and stiff competition from other players in the technological industry.

The ratings, however, derive strengths from OBCI's established business group and experienced promoter in IT industry and stable growth prospect of the industry over the medium-term.

Going forward, the ability of the company to profitably scale up its operations on a sustainable basis, timely realization of debtors and effective management of working capital requirements with rationalizing of its debt levels would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Highly leveraged capital structure with modest debt service coverage indicators

OBCI's capital structure is highly leveraged, marked by an overall gearing of 21.17x at the end of FY22. The company's debt service coverage indicators were modest with interest coverage ratio of 1.17x and high total debt/ gross cash accruals (GCA) at around 126.71x for FY22 on account of low profitability margin coupled with high interest cost. Similarly, the company's total outside liabilities/tangible networth stood at 26.37x at the end of FY22. The rationalization of debt levels is critical from credit perspective, as a highly leveraged capital structure with less gearing headroom can limit the company's financial flexibility.

Elongated working capital cycle of the company with poor liquidity profile

During FY22, operating cycle of the company stood highly elongated at 1,276 days on account of high average collection period and inventory holding period of 1,197 days and 380 days, respectively. Average collection period was substantially high on account of delayed payment from the Department of Health which is expected to be released in installment basis in subsequent years. Poor liquidity marked by lower accruals could constrain the company's ability to repay its debt obligations on a timely basis and there were delinquencies in past also. Hence, the company's ability to realize debtors in a timely manner will be critical from credit perspective.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Fluctuating operating income levels with low net profitability

OBCI's total operating income (TOI) has been fluctuating over FY19-FY22 given its tender based operating business. TOI declined by ~31% year-on-year (y-o-y) to Rs. 212 Mn in FY22 compared to Rs. 307 Mn in FY21. Higher TOI in FY21 was majorly due to execution of a relatively large project from Department of Health. More recently in FY22, sales had been lower due to lesser demand for the company's product mainly in medical equipment. Although PBILDT margin in FY22 improved to 23.27% (FY21: 8.05%) aided by lower cost of sales, the company's PAT margin remained below 1% amid increasing finance cost owing to increasing interest rates. The company's net profitability margins have been historically on the lower side owing to the trading nature of the business and intense market competition given the highly fragmented nature of the industry. The firm's ability to achieve sustained growth in operations with a stable margin profile will remain critical from credit perspective.

Exposure to volatile interest rate

OBCI had a substantial interest outgo in FY22 owing to high working capital utilization to fund its high inventory holding. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to quarterly base rate and interest rate is changed accordingly on quarterly basis. Base rate 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. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

Technology risk coupled with fortunes linked to performance of brand values of the respective companies

The fortune of OBCI is highly linked with the fate of its associated brands. Although, the company has diversified business and product portfolio, still a significant portion of its income is derived from technological products and services. Furthermore, technology related products include high risk of product obsolesce and are impacted heavily by technological changes and changing consumer preference. Hence, these products have a short life cycle. They continuously evolve with time and technologies. Present market leadership and sales success doesn't guarantee future leadership. Hence, the brand value of the products doesn't guarantee the same in future, exposing the business of OBCI to the technological risk.

Stiff competition from other players in technological industry

The IT industry is inherently competitive with presence of multiple small and large-scale IT companies. The growing competition in the industry exposes the company to typical industry risks such as ability to bag large-sized contracts and attrition of personnel, which may result in lower growth rates. OBCI has presence in the industry which remains susceptible to changes/emergence of advanced technologies and the company's ability to adapt to the evolving and advanced requirements of the clients remains critical. IT being discretionary spend, any cost-reduction initiative would result in reduction in IT spends by the clients and the same will impact the growth prospects of the company. The technological tie-up with some companies helps to secure and well-position the business in the market.

Key Rating Strengths**Established business group and experienced promoter in IT industry**

OBCI derives strength from its strong promoters belonging to the Omni Group of Companies which is involved in technology service arena. The group serves a variety of market sectors and industries with offerings that range from IT infrastructure design to project management of IT initiatives, communications to power and enterprise level software to web solutions. The Group have been operating some national level projects like installation of IT Labs in Government schools, Preparation of Voters ID Card, Data Management and Processing for Nepal Population Census, and also involved in IT system, Network and security of some Commercial banks, and many more. Furthermore, OBCI is managed under the overall guidance of Mr. Tul Bahadur Singh Hari, Chairman, who possess around three decades of experience in the related field.

Stable growth prospect of the industry

The chaos of the recent pandemic outbreak has made a significant contribution to the growth of technology users worldwide. Companies have been increasingly pushing the envelope of technology in order to gain competitive advantage followed by individual level of IT awareness. With the rise in IT adoption, backed up by increasing financial literacy in public, emerging work from home concepts and higher reliance in the technological aspects, the market of IT industry is booming. Although Nepal's leap towards IT adoption is in a nascent stage, the public level awareness and corporate level penetration both in the private and public sector supports the growing market prospect in future.

About the Company

OBCI was incorporated on June 18, 2006. The company is involved in providing Information Technology services, and in trading of various items related to the IT sector, Generators, UPS, Batteries and Medical Equipment throughout Nepal. The company is the distributor of more than five brands and has countrywide presence in all seven provinces of Nepal.

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

(Rs. in Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	1,259	307	212
PBILD Margin (%)	5.16	8.05	23.27
Overall Gearing (times)	16.72	21.19	21.37
Interest coverage (times)	11.78	1.64	1.17
Current Ratio (times)	1.71	1.23	1.53
Total Debt to Gross Cash Accruals (times)	14.84	126.78	129.81

A: Audited

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1.22	CARE-NP B- [Single B Minus]
Short Term Bank Facilities	Fund Based Limit	448.91	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limit	150.00	CARE-NP A4 [A Four]
Total Facilities		600.13	

Contact us

Analyst Contact

Ms. Sarina Khakurel

Contact No.: +977-01-4012628

Email: sarina.khakurel@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012630

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.