

Max International

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	28.67	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	1,701.33	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,730.00 (One Thousand Seven Hundred Thirty Million Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Max International (MI).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MI are constrained by its modest profitability margins owing to trading nature of business in a competitive industry coupled with elevated interest outgo amid high reliance on bank borrowings for meeting working capital needs leading to suppressed debt coverage indicators during FY23 (Unaudited, FY refers to the twelve-month period ending mid-July), elongated collection period, and exposure to volatile interest rate. The ratings also factor in technology risk associated with the telecommunications industry coupled with fortunes linked to performance of brand values of the respective companies.

The ratings, however, derive strengths from MI's long track record of operations along with experienced promoters and management team, association with reputed brands having strong and diversified market presence, established selling and distribution channel coupled with increasingly diversified product portfolio and customer profile.

Going forward, the ability of MI to sustain growth in operations while improving profitability, and efficient management of working capital requirements leading to improved solvency and coverage indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Declining operating performance in FY23 with suppressed debt coverage indicators amid high debt requirement

During FY23, MI's total operating income decreased to Rs. 2,683 Mn vis-à-vis Rs. 3,273 Mn in FY22. The demand was high in FY22 on account of rapid increase in IT adoption in Nepal, particularly post pandemic, coupled with diversification of MI's business portfolio. PBILDT margin of the company improved to 7.56% in FY23 vis-à-vis 4.91% in FY22 due to increase in service sales. However, PAT margin of the company decreased to 0.83% in FY23 compared to 1.24% in FY22 owing to increase in interest expenses. Due to decline in PAT, the Gross Cash Accruals of the company also declined to Rs. 28 Mn in FY23 from Rs. 48 Mn in FY21 and FY22.

Consequently, the debt coverage indicators of the company stood modest, indicated by interest coverage of 1.25x in FY23, declining from 1.79x in FY22 amid increased interest rates in the market. Furthermore, total debt/GCA of the company also deteriorated to 40.19x at the end of FY23 compared to 23.60x at the end of FY22. Although overall gearing ratio stood relatively moderate at 2.57x at the end of FY23, the firm's credit profile hinges on its ability to rationalize debt levels leading to improved coverage indicators.

Elongated collection period leading to increased reliance on borrowings

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

Distributorship business has inherent high working capital intensity due to high inventory holding requirements. MI provides substantial credit period to its customers, leading to a high collection period which increased to 154 days in FY23 vis-à-vis 124 days in FY22; the average collection period has been continuously increasing for the past three years. A sustained high collection period could add to the financial burden of the company over the near-term, which could be a challenge given the current credit crunch in the Nepalese banking sector. A major portion of the company's sales are to government entities/projects, counterparty risk over the longer term remains low. However, over the near-term, an elongated collection period remains a concern from liquidity perspective. Swift realization of debtors leading to lesser dependence on bank borrowings will be critical from credit perspective.

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

Technological obsolescence is an inherent risk in any technology related business and also applies to MI. Technology related products are exposed to the high risk of product obsolescence and are impacted heavily by technological changes and changing consumer preference. Hence, these products tend to have a short life cycle. They continuously evolve with time and technologies. This also leads to the fortunes of the company being highly linked with the fate of its associated brands. Although a more diversified product portfolio safeguards these risks to some extent, the company's performance remains directly linked to the performance of its suppliers.

Stiff competition from other players in technological industry

The Information Technology (IT) industry is, inherently competitive with presence of multiple small and large-scale 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. The telecommunications industry 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 for its business prospects.

Exposure to volatile interest rate

Nepalese banking sector has 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. 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. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rate, as seen over the last year or so, have added to the interest burden of the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Established track record of operations albeit proprietorship nature of constitution

MI is promoted by Ms. Shahina Hussain, sole proprietor, who has been leading the firm since its inception in 2006. Ms. Hussain has about twenty years' experience in the ICT (Information Communication Technology) sector, which bodes well for the overall business prospects of the firm in an increasingly competitive industry. She has an academic qualification as an engineer and an MBA. Similarly, Akbar Hussain is the CEO of the company. He has been leading Max International as its CEO since 2006, and has a degree in B-tech. He has an experience of about twenty-five years in ICT. Furthermore, the firm is supported by an experienced team across various functions.

MI, being a sole proprietorship firm, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency/decision of the proprietor. Furthermore, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Association with reputed brands having strong and diversified market presence

MI is the titanium partner which is the highest tier beside distribution for Dell Technologies in Nepal. Dell Technologies Inc. is an American multinational technology company headquartered in Texas and develops, sells, repairs, and supports computers and related products and services.

Similarly, MI has brand authorization of reputed ICT services like Dell Emc., Oracle, Lenovo, Microsoft, hp, Symantec, IBM, Cisco, among many more. Furthermore, MI has the authorized partnership of more than 25 top OEM (Original Equipment Manufacturer) brands, which enhance a company's credibility, trustworthiness, while expanding its customer base and providing a competitive advantage.

Established distribution coupled with diversified product profile

MI is aligned with international and local companies for strategic partnership for various aspects of businesses. MI channelizes wholesalers and retailers to facilitate end customers including both individuals and corporates and system integrators to facilitate the large customers and projects, allowing MI to provide a comprehensive variety of services to the customers.

Furthermore, MI has expanded its revenue profile to a multiple products and services ranging from systems to consumer electronics to software solution to storage. Similarly, MI provides IT infrastructure and support to the both government-levelled and private leveled clients including banks, financial institutions, MNCs and other large enterprises.

Stable growth prospect of the industry

The information technology has become an essential part of human lives, flooding us with information, ideas, and giving rise to many businesses. Furthermore, the chaos of the COVID-19 pandemic 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

Max International (MI) was incorporated in 2006 in Nepal. MI is engaged in trading of various items related to the IT sector and is an authorized dealer of Dell Laptops and Server throughout Nepal. The company offer complete enterprise/B2B service that any organization requires, and got the ISO certification in 2017. Having an operational track record of almost two decades, MI has association with more than 25 top OEM brands and deals with diversified product range of more than 1,000 products. The company has signed distributorship agreement with Dell Technologies, Dell EMC, Microsoft, Lenovo, Oracle, Cisco and many more. MI has positioned itself as a complete IT ecosystem and serves in various technologies related sectors.

Financial Performance

Brief financials of MI for the past three years ended FY23 are given below:

Particulars	2021 (Audited)	2022 (Audited)	2023 (Unaudited)
Income from operations	3,098	3,273	2,683
PBILD Margin (%)	5.21	4.91	7.56
Overall Gearing (times)	2.77	3.04	2.57
Interest coverage (times)	1.78	1.79	1.25
Current Ratio (times)	1.17	1.33	1.19
Total Debt to Gross Cash Accruals (times)	14.75	23.60	40.19

Annexure-1: Details of Facilities Rated

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	28.67	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund/ Non-Fund Based	1,701.33	CARE-NP A4 [A Four]
Total Facilities		1,730.00	

Contact us

Analyst Contact

Ms. Dristi Acharya

977-01-4012628

dristi.acharya@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012629

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977 9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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