Vatsal Impex (Pvt.) Ltd.: [ICRANP] A3+ assigned

September 21, 2020

Summary of rated instruments

Instrument (Amounts in NPR million)	Rated Amount	Rating Action
Existing short-term loan limits (fund & non-fund based)	495.0	[ICRANP] A3+; assigned
Proposed short-term loan limits (fund & non-fund based)	450.0	[ICRANP] A3+; assigned
Total	**945.0**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a short-term rating of [ICRANP] A3+ (pronounced ICRA NP A three plus) to the short-term loans (including proposed fund/non-fund-based limits) of Vatsal Impex Private Limited (VIPL).

Rationale

The assigned rating factors in VIPL's business profile (authorised distributor of leading smartphone brand Xiaomi in Kathmandu region), the healthy growth in scale of operations, the improvement in margins and the expected segment diversification to surveillance system products of EZVIZ through a distributorship agreement. The rating also derives comfort from the company's low leverage (0.6x as of mid-Jul-2020) and comfortable debt coverage indicators (ICR and DSCR of ~4 times in FY2020). Adequate sales network of 11 dealers and over 90 retailers across Kathmandu region and the efficient working capital management are also rating positives. The rating further takes comfort from the fact that VIPL is promoted by the Sharda Group, which has a long and diversified presence across multiple business sectors in the country. ICRA Nepal expects the company to benefit from the financial flexibility of the Group in case of exigencies.

The rating, however, is constrained by the intense industry competition because of the presence of multiple brands in a small geography of operation. Going forward, the company's ability to attain adequate sales level amid the current challenges, maintain its capitalisation and coverage indicators and increase revenue diversification through new models/segments will remain the key rating sensitivities. The rating is also constrained by technological risks since the product obsolescence risks are borne by the company. Product innovation by the original equipment manufacturer will also remain critical.

Furthermore, the ratings are also constrained by the economic impact of the Covid-19 pandemic and the consequent lockdown. Though the company's product profile is expected to be marginally impacted in the post pandemic era, the overall economic environment is expected to have a bearing on VIPL's growth trajectory.

Key rating drivers

Credit strengths

Experienced and resourceful promoters – VIPL is a part of the Sharda Group, which has established presence in various lines of businesses in Nepal. The Group controls two third stake in the company as of now. ICRA Nepal expects the promoter group to provide timely financial support in case of financial exigencies.

Good product profile with healthy sales growth, supported by adequate sales network – VIPL is the authorised distributor of leading smartphone brand (Xiaomi) products in Kathmandu region since last five years and that of EZVIZ products in Nepal from January 2020. The company reported revenue growth of approximately 83% in FY2020 and CAGR of around 44% in last three years ending mid-July-2020. Sales growth has been supported by the company's robust sales channel, comprising of 11 dealers and over 90 retailers in its geography of operation—the Kathmandu region.

The growth prospect in the mobile segment remains good as the product portfolio comprises budget to premium products, hence incorporating various market segments. Due to the outbreak of Covid-19 pandemic just after the distributorship agreement with EZVIZ, sales in this segment remains negligible so far. Going forward, the company's ability to diversify its revenue streams by adding new models/segments would remain a key monitorable.

Improvement in margin and healthy sales growth boost profitability– VIPL has been able to improve its operating margins over the years (to 5.6% for FY2020 from 4.6% for FY2017). Further, the healthy growth in operating income, the reduction in selling and administrative expenses and the efficient working capital mobilisation have improved the net profitability as well.

Low leverage and comfortable coverage indicators – The company has retained its internal accruals with minimal dividend distribution so far, strengthening its net-worth position. This, along with the efficient working capital mobilisation, has resulted in low leverage for the company (gearing of 0.6 times as of mid-July 2020). Further, with adequate operating profitability, the coverage indicators have improved and remained comfortable (ICR and DSCR of ~4 times for FY2020 from ~2 times for FY2018).

Credit challenges

Externalities brought on by Covid-19 could affect key operating parameters – The ongoing global pandemic is expected to significantly impede the country's economic growth. Hence, revenues are likely to remain subdued over the near to medium term. In the past, an open border with India aided the grey market of mobile phones, given the price differential. However, this tendency has been arrested by limiting movement across custom points, hence aiding the company in reporting revenue of around NPR 1.1 billion in 2MFY2020, which is approximately 52% of the annual sales in FY2020. However, this spiked demand could be partly attributed to pent up demand during the lockdown period in earlier months. Hence, the demand momentum remains to be seen.

Moderate track record; geographical concentration risk; and intense industry competition– VIPL has been in the smartphone distributorship business since 2012 as a distributor of Videocon and Purple brand mobile phones. These brands were dropped in FY2016 after the new distributorship agreement with Xiaomi. VIPL has been the country's sole distributor of Xiaomi brand for two year till FY2018, when an additional distributor was appointed for Xiaomi products outside the Kathmandu region. This confined the company's business area. The high competition from various organised, unorganised as well as emerging ecommerce players could impede the growth prospects of the company.

Technological challenges and risk of product obsolescence – The smartphone industry is characterised by rapid technological changes and is fiercely competitive. Several players constantly innovate to gain market dominance. Revenue and growth prospects of the distributor depend on these factors. Hence, the ability of Xiaomi to launch innovative products at a competitive rate would have a bearing on the company's financial outlook going forward.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company

Established in 2012, Vatsal Impex Private Limited (VIPL) is the authorised distributor of Xiaomi products in the Kathmandu region as well as of EZVIZ products in Nepal. Its registered office is in Thapathali, Kathmandu. Sales channel primarily comprises 11 dealers and over 90 retailers. The company is a part of the Sharda Group, which has operations across various manufacturing, trading, banking, and housing sectors in Nepal. As of now, the company's shares are held by three individuals in equal proportion, two of whom belong to the Sharda family. Mr. Binit Kumar Sharda is the chairman and Mr. Nitesh Kumar Mungada is the managing director of the company.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating income (OI; NPR million)	718	1,073	1,165	2,131
OPBDITA[1]/OI (%)	4.6%	4.8%	5.0%	5.6%
Total debt/Tangible net worth (TNW; times)	2.46	2.46	1.46	0.62
Total outside liabilities/TNW (times)	2.79	2.73	1.68	0.84
Total debt/OPBDITA (times)	5.58	3.91	2.87	0.92
Interest coverage (times)	1.98	2.04	2.78	4.03
DSCR (times)	1.97	2.03	2.78	4.03
Net working capital/OI (%)	34.3%	24.1%	22.0%	12.4%

Source: Company data

Annexure-1: Instrument details

Instrument	Limits to be rated (NPR million)	Rating
Short-term, non-fund based		
LC (sight)/ Bank Guarantee	200.0	[ICRANP] A3+; assigned
Proposed short term, non-fund based, unallocated	430.0	[ICRANP] A3+; assigned
Total short-term, non-fund based (A)	**630.0**	**[ICRANP] A3+; assigned**
Short-term, fund based		
Demand Loan/ OD/TR/ STDL/ OC Limits	295.0	[ICRANP] A3+; assigned
Proposed Overdraft (OD)	20.0	[ICRANP] A3+; assigned
Total short-term, fund based (B)	**315.0**	**[ICRANP] A3+; assigned**
Grand total (A+B+C+D)	**945.0**	

** There are some funded and non-funded facilities within the above rated limits.*

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About ICRA Nepal Limited

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1 Operating profit before depreciation, interest, tax and amortisation

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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