

## Vianet Communications Private Limited: [ICRANP] LBB-/A4 assigned

June 28, 2021

### Summary of Rated Limits

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loan limits	1,088.50	[ICRANP] LBB-; assigned
Short-term loan limits	1,546.57	[ICRANP] A4; assigned
<b>Total</b>	<b>2,635.07</b>	

\* Instrument details are provided in [Annexure-1](#).

### Rating Action

ICRA Nepal has assigned the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to Vianet Communications Private Limited's (Vianet's) long-term limits and the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term limits.

### Rationale

The assigned ratings factor in Vianet's long track record of operations (~21 years) and its good market presence among the fibre-based internet service providers (ISPs) with ~11-12% market share. The ratings also consider the growth in the company's subscriber base, both in the retail and the enterprise/corporate sector, which has aided in healthy core revenue growth (~50% CAGR in last four fiscals), despite the general decline in average revenue per user (ARPU) till FY2020. With the increase in scale of operations and ARPU in H1FY2021, Vianet's operating margin witnessed improvement and stood at ~28% for H1FY2021 (~15% for FY2018). The rating action also derives comfort from the company's experienced board members and management team.

Nonetheless, the ratings are constrained by the company's stretched capitalisation, with total debt/net worth of 5.76 times and total outside liabilities/net worth of ~10 times as of mid-January 2021. These indicators are likely to further weaken given the company's aggressive expansion plans. Further, given the technology intensive nature of the industry, capex levels are expected to remain high and hence the company's ability to maintain a comfortable capitalisation through adequate equity infusions/internal accruals would remain crucial. The ratings are further impacted by the intense industry competition, which is likely to further increase with the recent entry of a new ISP from a large business house. Vianet's geographical concentration of revenues remains high, with ~87% of FY2020 revenues derived from capital city alone. The company is also exposed to the foreign currency risk as certain expenses and equipment import are made in USD terms, while the revenues are entirely in NPR terms. The company's ability to manage its liquidity profile also remains to be seen as the gradual build-up in its creditors is weakening the current ratio. Going forward, Vianet's ability to sustain/improve its market share and margins while maintaining comfortable debt coverage and capitalisation indicators, will remain a key rating sensitivity.

### Key Rating Drivers

#### Credit Strengths

**Long track record with good brand presence** – Vianet has been providing internet connectivity and communication solutions to corporate and retail customers since October 1999. The company holds ~11-12% market share in the total fibre-based internet subscribers as on mid-March 2021 as per the report published by the Nepal Telecommunications Authority (NTA). The company currently operates in 14 districts through 40 branches, operation centres and outlets, with current focus mostly being on urban centres.

**Healthy addition to user base aids revenue growth and improves operating margins** – Vianet has been able to report a healthy growth in its customer base, both in the retail sector and enterprise/corporate sector, with ~35% growth in total user base in FY2020 and further ~33% growth in H1FY2021. This has resulted in healthy core revenue growth of CAGR ~50% in last four years ending FY2020; the total revenues grew by ~55% during this period including the contractual revenue from NTA. The revenue growth was healthy despite the gradual drop in ARPU over this period to NPR 1,140 in FY2020 from NPR 1,714 in FY2017. Though the ARPU increased to NPR 1,230 in H1FY2021, sustainability

of the same remains to be seen, given the high competition. However, with increasing scale of operations, the company's operating margin improved on a YoY basis to ~28% in H1FY2021 from ~15% for FY2018. The company's ability to sustain the improvement in margins and continue the revenue momentum would remain crucial for its financial profile.

**Experienced board and management team** – The company is promoted by two individuals viz. Mr. Binay Bohora and Mr. Om Bikram Thapa (shareholding ratio of 75:25). Mr. Bohora is also the managing director while Mr. Thapa is the Chief Technical Officer of the company. Both the promoters are academically from the related sector and have gained long experience in the ISP and information technology (IT) sector, which along with the company's experienced management team, remains a rating positive.

## Credit Challenges

**Stretched capitalisation profile** – The company's financial profile is characterised by high gearing of 5.76 times as of mid-January 2021 (7.93 times as on mid-July 2020) with total outsider liabilities/net worth of ~10 times as on the same date. The weak capitalisation was mainly due to higher term loans raised for its capex, as well as higher creditor days and sizeable customer advances. With Vianet planning further debt-funded expansion in other cities throughout Nepal, the capitalisation is expected to remain stretched over the medium term. While the interest coverage is expected to remain adequate (~5 times in H1FY2021), the debt service coverage ratio is likely to remain modest (~1.2 times in H1FY2021, declining from ~2.5x in FY2018), with a rise in term debt burden. Since the company's total debt to OPBDITA remained moderate at ~2 times in H1FY2021, its ability to maintain its margins and revenue base would remain critical for its debt servicing capability.

**Modest liquidity** – Being a capital-intensive business, Vianet requires sizeable investments in capex on a YoY basis. Hence, the increasing debt funding had created pressure on the company's liquidity as seen in build-up of various payables, which have led to a generally weak current ratio (0.46 times as of mid-January 2021 as against 0.61 times as of mid-July 2019). However, the company has been able to maintain mostly zero reliance on working capital borrowings because of high creditor days. The company's ability to manage the liquidity, in the event of any lumpy crystallisation of the same, will remain a key monitoring factor.

**Intense industry competition with fragmented market** – As per the report published by NTA, there are about 40 licensed ISPs operating in Nepal as on mid-March 2021, with a total internet subscriber base of 1,431,281. Although the total subscriber base is growing with low industry penetration so far, the increasing competition has led to a slight decline in the company's market share from ~14% in FY2018 to ~11% as of mid-March 2021. The recent entry of CG Net by CG Communications Limited, a part of the large and reputed Chaudhary Group, with predatory pricing strategies is likely to further intensify price competition and impact the company's market share and APRU levels.

**Geographically concentrated revenues** – Vianet generates its revenue mainly from the Bagmati Province as the company is largely concentrated in the capital city, Kathmandu. The company derived ~87% of its FY2020 revenues from the Bagmati Province (~82% of total revenues being from Kathmandu valley alone) and has limited presence in other geographies. CG Net has also started services from the Kathmandu valley, which could impact Vianet's revenue performance going forward.

**Exposure to foreign exchange fluctuation risks** – Bandwidth costs, which nearly forms ~30% of its total revenues, is payable to the vendor company in USD terms. Similarly, the company's expansion plans would necessitate sizeable import of equipment, which are also in USD terms; however, the revenues are entirely in NPR terms. Since the hedging practices are partial so far, the company would remain exposed to forex risks.

**Capital and technology intensive industry with exposure to obsolescence risks** – The ISPs are significantly exposed to technology obsolescence risks as they are required to be upto date to the latest technology to ensure better services and hence customer retention. Vianet would also be required to spend continuously for regular capex and these investments are also subject to technological risks arising from advancements in the field of IT.

**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

Incorporated in October 1999, Vianet Communication Private Limited (Vianet) is an internet service provider which provides internet connectivity and communication solutions to corporate and retail customers in Nepal. Vianet has also started providing service of IPTV (TV over Internet Protocol) and video on demand services from FY2019 onwards. Vianet currently operates in 14 districts through 40 branches, operation centers and outlets. Mr. Binay Bohora is the major shareholder of the company, holding 75% stake, and is also the managing director of the company.

## Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	H1FY2021 (Provisional)
Operating income (OI; NPR million)	931	1,142	1,689	966
OPBDITA/OI (%)	14.60%	20.81%	24.06%	28.35%
Total debt/Tangible net-worth (TNW; times)	6.06	9.86	7.93	5.76
Total outside liabilities/ TNW (times)	14.90	16.80	13.35	10.18
Total debt/OPBDITA (times)	2.38	3.19	2.66	2.04
Interest coverage (times)	5.19	4.02	4.49	4.95
DSCR (times)	2.53	1.30	1.67	1.16
Current ratio (times)	0.46	0.61	0.44	0.46

Source: Company data

## Annexure-1: Instrument details

Instrument	Rated Amount (NPR Million)	Rating Action
<b>Long-term limits (A)</b>	<b>1,088.50</b>	[ICRANP] LBB-; assigned
Fund-based facilities; Term Loan	1,088.50	
<b>Short-term limits (B)</b>	<b>1,546.57</b>	[ICRANP] A4; assigned
Fund-based; Overdraft & Working capital	4.00	
Non-fund-based; Letter of credit	1,477.50	
Non-fund-based; Bank guarantee	65.07	
<b>Total (A+B)</b>	<b>2,635.07</b>	

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## About ICRA Nepal Limited

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