

Mahalaxmi Mobiles Private Limited: [ICRANP] LBB+/A4+ assigned

September 20, 2021

Summary of rated instruments

Instrument	Rated Amount (NPR million)	Rating action
Fund-based long-term limits	3.1	[ICRANP] LBB+; assigned
Fund-based short-term limits	480.0	[ICRANP] A4+; assigned
Non-fund based short-term limits	250.3	[ICRANP] A4+; assigned
Total	733.4	

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

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L double B plus) to the existing fund-based long-term limits of NPR 3.1 million of Mahalaxmi Mobiles Private Limited (MMPL). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the existing short-term fund-based limits of NPR 480 million and the existing short-term non-fund based limits of NPR 250.3 million.

Rationale

The assigned ratings factor in the company's experienced promoters, with an established track record in electronics trading business, mainly mobile phones. The ratings also factor in the increased demand for smartphones in recent years with greater use of internet-based technologies and applications. The ratings also factor in the company's moderate gearing level (total debt (TD)/ tangible net worth (TNW) of ~2.1x as on mid-July-2021), which coupled with low-interest rate environment, results in a healthy debt coverage indicators (DSCR of ~8.1x and Interest coverage of ~10.6x for FY2021). Adequate debtor security mechanism and low working capital intensity of the company are also positives from debtor recovery and liquidity perspective respectively. The ratings also favourably factor in the Government of Nepal's (GoN's) policy of developing and promoting IT and mobile technology infrastructure via. initiatives such as the 'Digital Nepal Initiative' introduced in 2019, which is expected to further promote the use of mobile and internet technology in the future.

However, the ratings are constrained by the company's short track record of operations (4 years, sales started in FY2018) and its volatile revenue pattern. Rating concerns are also associated with the intense competition from more established mobile phone brands in the market. Although MMPL caters to the niche market of budget phone buyers (through its budget series phones under Itel and Techno brand), the proliferation of other brands in budget segment could limit the growth and profitability outlook for MMPL in future. The falling market share of feature phones (~43% of MMPL's sales for FY2021) also remains a rating concern. The ratings are also constrained by MMPL's concentrated customer base, with the top-10 customers accounting for ~46% of the overall sales in the past couple of years (FY2020-FY2021).

Key rating drivers

Credit strengths

Experienced promoters and strong group – MMPL's promoters have experience and an established track record in distribution of various types of electronic devices including mobile phones. The promoters' experience and established networks have helped MMPL to achieve healthy sales traction and create a large distribution network of retailers and dealers in a relatively short span of operations.

Sole dealership in the country and established distribution network - MMPL is the sole distributor of ITEL and Techno brand of mobile phones in Nepal. The niche market comprising of budget phone buyers and exclusive distributorship rights of MMPL remains positive for the sustainability of revenue over the short to medium term. MMPL's distribution network comprises over 60 dealers and after sales service providers, which remains a positive for its future growth.

Moderate gearing and low interest rate result in healthy debt coverage indicators – MMPL's financial profile remains fair with moderate gearing and healthy debt coverage indicators. The company has a moderate gearing level, with TD/TNW of ~2.1 times as of mid-July 2021 and healthy coverage indicators with the debt service coverage ratio (DSCR) of 8.1x and interest coverage of 10.6x for FY2021. The coverage indicators have recorded improvements from prior year figures (DSCR and interest coverage of ~1.4x for FY2020), supported by high growth in sales and operating profitability in FY2021. The current debt coverage indicators also remain supported by the low-interest rate environment in the banking industry.

Strong demand outlook for mobile phones – The use of mobile phones and mobile phone subscription in Nepal has been witnessing rapid growth. The number of mobile users has shown steady growth over the years, with the number of mobile subscriptions growing from ~29.8 million in FY2016 to ~40.6 million in FY2019 (CAGR of ~11%)¹. This rise in mobile phone use has been further boosted by the shift in consumer behaviour due to the pandemic and the increased use of internet-based technologies and applications for commerce, education, networking, and various other activities. In addition, the GoN's 'Digital Nepal Initiatives'² introduced in 2019, which aims at developing and promoting IT and mobile technology infrastructure and use to promote socio economic development is expected to further encourage mobile technology use and in turn sustain demand for mobile smartphones.

Credit challenges

Short track record and small scale of operations– MMPL started its operations from FY2018 and therefore has a short track record. The sales pattern during FY2018 to FY2021 has remained volatile with the company reporting year on year (yoy) decline in FY2019 and FY2020, following strong opening year sales in FY2018. However, the company reported its highest ever annual sales in FY2021, which was supported by the rise in the demand for mobile smartphones, following a greater use of online methods for work and education. Given the short track record, the company's sales pattern is yet to stabilise and its ability to sustain the FY2021 performance and achieve scale growth remains to be seen.

Declining market for feature phones - The increase in access to internet across the country is compelling people to upgrade to smart phones. The feature phones, which are the revenue drivers of MMPL, mostly have 2G technology, which bars the users from using advance internet applications. In the modern age of 4G/5G technology and cheap smartphones, the demand for feature phones is declining. In FY2021, the domination of smartphones can be clearly observed in the 100% rise in import of mobile phones induced by nationwide lockdown, online classes, and work from home practices (NPR 18 billion in FY2020 and NPR 36 billion in FY 2021). Hence, the gradual shift of consumers from feature phones to smartphones remains a concern for MMPL, where feature phones accounted for ~43% of FY2021 sales.

Highly competitive industry - The mobile phone industry remains highly competitive due to the presence of multiple established brands in the market. The competition from informal imports of mobile phones also remains a challenge for domestic importer and distributors. Although the budget series of ITEL and Tecno brands caters to the niche market, the older and established brands are gradually moving into the budget series as well. This could increase the competition for MMPL's products and its ability to launch competitive products will remain essential for its demand and overall financial outlook.

Concentrated customer base – MMPL's customer concentration has remained high, with the top-10 customers accounting for ~46% of its sales in both FY2020 and FY2021, which shows high dependence on a few counterparties for its sales. The company's customers include sub-dealers as well as retailers that are spread across the country but primary outside the Kathmandu Valley. Hence, its revenues as well as its debt-coverage ability is vulnerable to the potential loss of any major customer. MMPL also has a concentrated debtor profile, with the top-10 debtors accounting for ~58% of

¹ Source: Annual report FY2020, Nepal Telecommunications Authority

² '2019 DIGITAL NEPAL FRAMEWORK', Government of Nepal, Ministry of Communication and Information Technology

the total debtors as of mid-July 2021. However, adequate debtor security mechanism (~52% debtors secured against bank guarantee as of mid-September 2021) offers comfort against the concentration risk.

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 2017, Mahalaxmi Mobiles Private Limited (MMPL) is the national distributor of 'Itel' and 'Tecno' branded mobile phones and accessories. Both Itel and Tecno are Chinese mobile phone manufactures based in Shenzhen, China. MMPL has a sales network of over 61 retailers/sub-dealers spread around the country. The company's registered office is located in Teku-12, Kathmandu. The company is solely owned by Mr. Prakash Bahadur Swar who is also its Managing Director.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Provisional)
Operating income (OI; NPR million)	1,194	632	489	2,049
OPBDITA/OI (%)	4.3%	2.7%	5.8%	13.6%
Total debt/Tangible net worth (TNW; times)	6.6	4.5	2.8	2.1
Total outside liabilities/TNW (times)	7.8	5.0	3.3	2.4
Total debt/OPBDITA (times)	4.6	7.1	3.3	1.8
Interest coverage (times)	2.0	0.6	1.4	10.6
DSCR (times)	1.8	0.6	1.4	8.1
Net working capital/OI (%)	21%	21%	23%	25%
Current ratio	1.1	1.1	1.2	1.5

Source: Company data

Annexure-1: Instrument details

Instrument	Rated Amount (NPR million)	Rating Action
Fund Based; Long-term Limits		
Hire purchase	3.1	[ICRANP] LBB+; assigned
Total Fund Based; Long-term Limits (A)	3.1	
Fund Based; Short-term Limits		
Overdraft	30.0	[ICRANP] A4+; assigned
Trust receipt loan	400.0	
Short-term Loan (within TR)	(400.0)	
Working capital loan	50.0	
Total Fund Based; Short-term Limits (B)	480.0	
Non-fund Based; Short-term Limits		
Letter of credit	250.0	[ICRANP] A4+; assigned
Bank guarantee	0.3	
Total Non-fund Based; Short-term Limits (C)	250.3	
Grand Total (A+B+C)	733.4	

Analyst Contacts:

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)
sailesh@icranepal.com

Mr. Purushottam Sedhai, (Tel No. +977-1-4419910/20)
purushottam@icranepal.com

Mr. Devendra Dongol, (Tel No. +977-1-4419910/20)
devendra@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)
barsha@icranepal.com

About ICRA Nepal Limited:

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

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.

For more information, visit www.icranepal.com

ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents