

PRESS RELEASE

GENERATION NEXT COMMUNICATION PRIVATE LIMITED

March 2023

Rating

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Short Term Bank Facilities	1,850.30	IRN A4+	Assigned
Total	1,850.30		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the short term rating of IRN A4+ (A Four Plus) to the short term bank facilities of NPR 1,850.30 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Generation Next Communication Private Limited (GNCPL) derive strength from parentage of experienced promoter group “Bhimsaria”, supported by proficient and experienced management team leading to a better understanding of the market dynamics. The rating also factors in the group’s financial flexibility, GNCPL’s average financial profile, association with established brands, existence of established dealership network and market presence across major cities. These rating strengths however, are partially offset by working capital intensive nature of operations with high reliance on external financing. The rating also notes GNCPL’s exposure to supplier concentration risks, non-exclusive agreements with suppliers, presence in competitive industry with technological linkages, exposure to regulations and foreign exchange risks. Going forward, the ability of the company to stabilize scale of operation while improving the profitability margins along with the coverage & capitalization indicators will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Moderate track record of operations with experienced promoters and management team

GNCPL is a part of Bhimsaria Group and derives its strength from promoters having strong presence in Nepal through their group entities in trading, manufacturing, real estate and various other sector. GNCPL is led by Mr. Pawan Kumar Bhimsaria, Managing Director who has over four decades of experience as a director in banking, trading and manufacturing sector. Furthermore, the board is supported by proficient and experienced team across various functions leading to a better understanding of the market dynamics, enabling a sound relationship with the suppliers and customers.

Average Financial Profile

GNCPL’s average financial risk profile is characterized by sustained growth in revenue as reflected in compounded annual growth rate (CAGR) of 37% in the last five years ending FY22 along with improving profitability margins and adequate debt coverage indicators. Despite the impact on sales of iPhones due to import ban placed on smartphones costing above USD 300¹ from April 2022 till mid-December 2022, GNCPL was able to improve its total operating income (TOI) by ~83% to NPR 3,571 Mn in FY22 vis-à-vis NPR 1,953 Mn in FY21 and NPR 946 Mn in FY20. Furthermore, GNCPL was able to improve its EBITDA² margin to 6.20% in FY22 vis-à-vis 5.43% in FY21 and 5.16% in FY20. The interest coverage ratio also remained moderate at 2.76x in FY22 which improved from 1.94x in FY21 despite the company’s increased reliance on

¹ ceiling was revised to USD 300 from USD 600 on July 17, 2022

² Earnings before interest tax depreciation and amortization

external finance and higher interest rates on borrowings. Nevertheless, the increased reliance on short term debt has resulted in a more leveraged capital structure of GNCPL marked by higher overall gearing ratio of 4.25x in FY22 vis-à-vis 3.60x in FY21. Going forward, GNCPL's ability to stabilize scale of operation while improving the profitability margins, coverage & capitalization indicator remains a key monitorable.

Established dealership network, brand and market presence across major cities

GNCPL is the sole authorized distributor of Apple products and one of the three authorized distributor of Dell products in Nepal. GNCPL deals with products from Dell and Apple, which have strong brand recognition, brand recall, and high demand from among consumers at present. Furthermore, GNCPL has an adequate and established dealership network across major cities of the country. Currently, GNCPL has above 100 dealers for Dell products and has appointed more than 25 authorized resellers for Apple products. Furthermore, GNCPL has set up two authorized Apple service centers in the Kathmandu valley to ensure its quality after-sales service.

Key Rating Weaknesses

Supplier concentration risk and non-exclusive distributorship agreement

GNCPL is totally dependent on its suppliers for the timely supply of the products from the respective brands. Thus, any disruption in the supply chain could result in delay in revenue recognition and financial losses for GNCPL. Additionally, GNCPL does not have exclusive dealership agreements with its suppliers which remains a concern despite the company's long term association with the suppliers. Nonetheless, at present GNCPL is the only authorized distributor for Apple products, provides some comfort. Going forward, the continuation of the current terms of agreement with the suppliers remain a key monitorable.

Working capital intensive nature of operations with high reliance on external financing

The operations of GNCPL are working capital intensive owing to the distributorship nature of its business. The company maintains inventory to ensure smooth operations, especially since its product supply is entirely dependent on imports. In addition, GNCPL offers a substantial credit period to its customers, which however has been improving over the past three years. As a result, GNCPL has increased its reliance on external financing. Nevertheless, the company's operating cycle improved to 51 days and 71 days in FY22 and FY21 respectively from 158 days in FY20 mostly supported by the extended credit period from its suppliers where the company receives up to 180 days' credit and procurements are typically backed by LCs.

Existence in competitive industry coupled with technological risks

The product life cycle of consumer electronics, such as laptops and mobile phones, are typically short due to rapid changes in technology and intense competition between manufacturers globally. Thus the performance, scale of operations and profitability of GNCPL are linked to the brand value and performance of the OEMs³.

Exposure to regulations and foreign exchange fluctuations

GNCPL's operations are partially constrained by regulatory risk arising from various laws, regulations and policies relating to consumer electronics like laptops and mobile phones. Additionally, GNCPL is exposed to foreign exchange fluctuations due to a mismatch in currency as the products are imported (in USD) while realization of the finished goods is in the local currency.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

³ Original Equipment Manufacturers

About the Company:

Generation Next Communication is a private limited company established in August 4, 2010. The company is engaged in trading of various consumer electronics goods. GNCPL is the sole authorized distributor for Apple products in Nepal and is one of the three authorized distributor for Dell products. GNCPL operates through its two offices/customer service center of its own with strong market presence throughout major cities of Nepal supported by its's established distribution channel.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	946	1,953	3,571
EBITDA Margin (%)	5.16	5.43	6.20
Interest Coverage Ratio (x)	0.88	1.94	2.76
Current Ratio (x)	1.09	1.05	1.07
Overall Gearing Ratio (x)	10.88	3.60	4.25

* Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities-Working Capital Loan (WCL)	Short Term	1,050.00	IRN A4+
Non Fund Based Bank Facilities -LC/BG ⁴	Short Term	800.30	IRN A4+
Total Facilities		1,850.30	

Analyst Contacts

Ms. Grishma Dhungana

Tel No.+977-1-4483304/4485906

grishma.dhungana@infomericsnepal.com

Mr. Dipesh Pote Shrestha

Tel No.+977-1-4483304/4485906

dipesh.shrestha@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No.+977-1-4483304/4485906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

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⁴ Letter of Credit(LC), Bank Guarantee (BG)



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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4483304/4485906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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