

## PRESS RELEASE

### **TELETALK PRIVATE LIMITED** (Revalidated)

July 2023

#### Ratings

| Facilities                 | Amount (NPR. Mn) | Ratings | Rating Action |
|----------------------------|------------------|---------|---------------|
| Long Term Bank Facilities  | 315.00           | IRN BB  | Assigned      |
| Short Term Bank Facilities | 578.00           | IRN A4  | Assigned      |
| <b>Total</b>               | <b>893.00</b>    |         |               |

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB (Double B) to the long term bank facilities of NPR 315.00 Mn and short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 578.00 Mn.

#### Detailed Rationale

The rating assigned to the bank facilities of Teletalk Private Limited (TTPL) derives strength from the parentage of an experienced promoter group, “Ramesh Corp”. This is further supported by a proficient management team, a diversified product portfolio with strong brands, an established dealership network, and a significant market presence across the country. However, these rating strengths are partially offset by decreasing profitability, an elongated operating cycle, intense competition in the smartphone industry, technological risks, exposure to regulatory changes, and foreign exchange risks. Going forward, the key rating sensitivities will be the company's ability to improve profitability while reducing its operating cycle, the continuation of the current non-exclusive distributorship agreement, and prudent management of all regulatory requirements imposed by the Government of Nepal.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### **Parentage of Ramesh Corp with experienced promoter and experienced management team**

TTPL is an integral part of Ramesh Corp and derives its strength from promoters having a strong presence in Nepal through their group entities in broad sectors including manufacturing, service, trading businesses among others. The directors of TTPL have over a decade of experience in trading businesses associated with consumer electronics, such as mobile phones and home appliances. TTPL's Chairman, Mr. Rohit Gupta, is also the Vice Chairman of Ramesh Corp and holds directorship in various other group companies. Furthermore, a proficient and experienced qualified team supports the board across various functions leading to a better understanding of market dynamics and enabling a sound relationship with the suppliers and the customers.

##### **Established dealership network, brand and market presence across the country**

Company ventured into its own in-house brand named “Colors” under which mobile phones are manufactured through OEM from China. TTPL is a non-exclusive and sole authorized distributor of Nokia feature phones and smartphones for locations all over Nepal since September, 2019. Further, TTPL has entered into an agreement dated January 12, 2022 with Imagine Marketing Ltd<sup>1</sup>, India for sales of boAt products in Nepal. In

<sup>1</sup> In FY23 (April 01, 2022 to March 31, 2023), it has recorded net sales of about INR 4,000 crore (\$500 million). It is now ranked #2 in the overall wearable market as per the leading market research and advisory firm International Data Corporation (IDC) Worldwide Quarterly Wearable Device Tracker Q3CY2022. The brand now commands 8.5% market share on a volume basis (~1% jump in market share v/s Q2CY22).

FY22, Nokia smartphones accounted for less than 1% of the total imported phones in Nepal, making it the lowest imported brand, however, Nokia feature phone accounted 5.27% of total feature phone and Colors feature phone accounted 12.44% of total feature phone (which cover number one market in Nepal). Furthermore, TTPL has an adequate and established dealership network across the country, with 77 dealers in FY22 and 80 dealers in 10MFY23. These dealers cover around 4,662 retail outlets across major cities.

## **Diversified product portfolio**

Company was able to diversify its products according to customer demand, starting from Spice mobile phones to its own brand Colors phones, in order to tap into the major feature phone market. Additionally, the company managed to increase its market share in wearable products, with TTPL accounting for 10% of the total operating income from boAt products in 10MFY23<sup>2</sup>, compared to 2% in FY22.

## **Key Rating Weaknesses**

### **Moderate financial profile**

Total operating income (TOI) of the company increased by ~69% in FY21 to NPR 2,111 Mn. However, TOI decreased by ~33% in FY22 due to moderation in the demand for mid-range mobile phones followed by a liquidity crunch in recent years. Company was able to book TOI of NPR 772 Mn in 11MFY23. Despite the decline in TOI, the company was able to improve EBITDA margin to 5.95% in FY22 vis-à-vis 4.53% in FY21 which partially offsets the impact of the decline in revenue. The interest coverage ratio has deteriorated to 1.48x in FY22 from 2.50x in FY21 on account of increased dependence on bank borrowings and higher interest rate charged on borrowings in recent years. The tangible net-worth base of the company has stagnated due to the planned profit extraction in the form of dividend, resulting in leveraged capital structure marked with overall gearing ratio (excluding Directors' Loan) of 3.52x in FY22 vis-à-vis 3.86x in FY21. Going forward, stabilization in scale of operation with improvement in overall margins, coverage & capitalization indicator remains crucial.

### **Elongated Operating Cycle**

TTPL's reliance on working capital financing has significantly increased in FY22 owing to sluggish demand resulting in delayed realization of funds. Additionally, TTPL's distributorship business requires the company to maintain adequate inventory and provide sufficient credit period to its dealers. This has led to an elongation of TTPL's operating cycle from 127 days in FY21 to 208 days in FY22. It is crucial for the company to manage liquidity, maintain operating cycle, and improve profitability margins going forward.

### **Competitive smartphone industry coupled with technological risks**

The product life cycle of smartphone and wearable products is typically short due to rapid changes in technology and intense competition among mobile phone manufacturers. Hence, the ability to launch innovative products at a competitive rate and increase its market share would have a bearing on TTPL's short term financial outlook, as the fortunes of TTPL are currently linked with Nokia, Colors and boAt.

### **Exposure to regulatory changes and foreign exchange risks**

TTPL is partially constrained by a regulatory risk arising from various laws, regulations and policies relating to consumer electronics like mobile phones and its accessories. However, implementation of Mobile Device Management System (MDMS) effective from May 2023 onwards is expected to single out grey phones currently in circulation and prevent the usage of illegally imported phones in the future. In addition, TTPL is exposed to foreign exchange fluctuations due to currency mismatches, as the products are imported (in USD) while the realization of traded goods is in the local currency. Nevertheless, TTPL's current pricing policy reduces exposure to foreign exchange risk to some extent.

<sup>2</sup> Ten-month period ended on mid-May 2023

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

**About the Company:**

Teletalk Private Limited was incorporated on February 20, 2008, with Mr. Rohit Gupta, Mr. Pratik Jalan and Mr. Sanjay Agrawal as its promoters, all associated with Ramesh Corp. Currently, the company operates in Nepal, selling phones under the Colors and Nokia brands, as well as boAt branded products.

**Financial Indicators (Standalone)**

| For the year ended* As on              | FY20    | FY21    | FY22    |
|--|---------|---------|---------|
|  | Audited | Audited | Audited |
| Total Operating Income (in NPR Mn.)    | 1,248   | 2,111   | 1,423   |
| EBITDA Margin (%)                      | 5.50    | 4.53    | 5.95    |
| Interest Coverage Ratio (x)            | 1.16    | 2.50    | 1.48    |
| Current Ratio (x)                      | 0.97    | 1.23    | 1.23    |
| Overall Gearing Ratio (x) <sup>3</sup> | 4.34    | 3.86    | 3.52    |

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

\*Classification as per Infomerics Nepal standards

**Annexure:1 Detail of Facilities:**

| Name of Facilities  | Type of Facilities | Amount (NPR Mn.) | Ratings |
|---|--------------------|------------------|---------|
| Fund Based Bank Facilities- Permanent Working Capital Term Loan | Long Term          | 315.00           | IRN BB  |
| Fund Based Bank Facilities-Working Capital                      | Short Term         | 350.00           | IRN A4  |
| Non Fund Based Bank Facilities-LC/CA/BBG/PBG/APG                | Short Term         | 228.00           | IRN A4  |
| <b>Total Facilities</b>   |                    | <b>893.00</b>    |         |

*Letter of Credit (LC), Customer Acceptance (CA), Bid Bond Bank Guarantee (BBG), Performance Bank Guarantee (PBG) and Advance Payment Bank Guarantee (APG)*

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<sup>3</sup> Excluding Directors' loan



# Infomerics Credit Rating Nepal Limited

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