

PRESS RELEASE

JAGDAMBA MOBILES PRIVATE LIMITED

May 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Short Term Bank Facilities	900.00	IRN A4+	Assigned
TOTAL	900.00		

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 900.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Jagdamba Mobiles Pvt. Ltd. (JMOPL) derive strength from its parentage of experienced promoter group supported by proficient management team, improving financial risk profile characterized by improvement in sales and profitability however subdued in FY23 and moderate capital structure with moderate debt coverage indicators. These rating strengths, however, are constrained by JMOPL's modest track record of operations with non-exclusive distributorship agreement and increasing working capital intensity with reliance on external financing. Furthermore, the ratings also note JMOPL's exposure to competitive smartphone industry coupled with technological risks and volatile interest rates. Going forward, the ability of the company to improve profitability while maintaining its operating cycle and continuation of the present non-exclusive distributorship agreement with Realme will remain a key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced promoter group supported by proficient management team

JMOPL is an integral part of the Shanker Group, led by Mr. Sulav Agrawal. The company benefits from its promoters who are active in different sectors in Nepal, like manufacturing, services, imports, and trading. With Mr. Sulav Agrawal as Chairman, JMOPL gains from his 15 years of experience in various industries. Furthermore, Mr. Agrawal is supported by a team of technically qualified and experienced professionals, leading to a better understanding of the market dynamics, enabling a sound relationship with the suppliers and customers.

Improving revenue profile characterized by improvement in sales and profitability however subdued in FY23

JMOPL derives its income from sales of Realme mobile phone since FY22 and in the years leading up to FY20, the company was involved in trading of phones of various other brands. The total operating income (TOI) of the company increased by ~2500% in FY22 to NPR 3,247 Mn from NPR 125 Mn in FY20, however the revenue decreased by ~18% in FY23 to NPR 2,762 Mn. The decrease in revenue in FY23 was primarily due to the tight liquidity conditions and increased inflation which affected the overall industry. JMOPL's EBITDA margin increased to 5.04% in FY23 vis-à-vis 2.74% in FY22 due to increase in commission in FY23. Consequently, the net profitability margin slightly improved to 1.98% in FY23 from 1.24% in FY22. Similarly, Gross Cash Accruals improved to NPR 57 Mn in FY23 from NPR 41 Mn in FY22.

Moderate capital structure with moderate debt coverage indicators

In FY23, JMOPL's interest coverage remained adequate at 1.76x, albeit lower than the 2.51x recorded in FY22. The decrease in interest coverage was attributed to heightened debt reliance and increased

interest expenses due to elevated borrowing costs. Nevertheless, JMOPL's Total Outstanding Liability (TOL) to Tangible Net Worth (TNW) ratio improved to 2.76x in FY23 from 9.95x in FY22, and the overall gearing ratio also saw an improvement from 9.60x in FY22 to 2.51x in FY23. These enhancements were primarily driven by a rise in equity share capital and net profit. Moreover, JMOPL's Total debt to EBITDA ratio improved to 2.40x in FY23 from 5.31x in FY22.

Key Rating Weaknesses

Modest track record of operations with non-exclusive distributorship agreement

Although JMOPL has been involved in trading of mobile phones since its inception in 2011. The company was able to scale its businesses only after signing the distributorship agreement with Realme during FY22. The distributorship agreement between JMOPL and Realme Mobile Telecommunications (India) Private Limited is on a non-exclusive basis and renewed every year. Thus, JMOPL has a modest track record of around 3 years as a distributor of Realme phones. The ongoing annual renewal of the contract raises concerns regarding the long-term viability of the arrangement, casting doubt on the sustainability of the company.

Increasing working capital intensity with reliance on external financing

The dealership business demands a lot of working capital due to high inventory needs and credit extension to dealers. Since JMOPL imports its products from India and sells it in the domestic market, the company does not get any credit period from supplier since the supplier delivers products against the letter of credit from banks or advance payment. However, JMOPL has been providing credit period of 21 days to its dealers and 90 days to its retailers in the present context. Further, significant portion of receivables are secured through Bank Guarantees which ensures collectability of the dues. In FY23, the average collection period of JMOPL was 38 days vis-à-vis 14 days in FY22 due to increase in average debtors and inventory holding period was 26 days vis-à-vis 13 days in FY22 due to increase in average inventory and consequently the overall operating cycle increased to 64 days in FY23 vis-à-vis 27 days in FY22. Even though the operating cycle of JMOPL remains adequate, going forward the ability of JMOPL to manage liquidity, maintain its operating cycle while improving profitability margins remain crucial.

Competitive smartphone industry coupled with technological risks

The product life cycle of smartphone is typically short due to rapid changes in technology and intense competition between mobile phone manufacturers. Hence, the ability of Realme to launch innovative products at a competitive rate and maintain market share globally would have a bearing on the JMOPL's short term financial outlook as presently the fortunes of JMOPL is linked with Realme.

Exposure to volatile interest rates

Interest rates on deposits and borrowing continue to play a crucial role in the Nepalese economy. Following the directives of the Nepal Rastra Bank (NRB), Banks and Financial Institutions (BFIs) typically determine loan interest rates by adding a premium to the base rates, which are adjusted quarterly. The interest rates set by BFIs have exhibited historical volatility over the past 12 months due to tight liquidity in the market. Consequently, borrowing from banks and financial institutions exposes PEL to the risk of fluctuations in interest rates.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Jagdamba Mobiles Private Limited (JMOPL) is a private limited company incorporated on July 07, 2011 and is an integral part of Shanker Group. JMOPL operates as a non-exclusive authorized distributor of Realme smartphones and accessories from Realme Mobile Telecommunications (India) Pvt. Ltd. Also, JMOPL has diversified its business portfolio by adding premium brands such as Safari Luggage and Boulton Audio devices, broadening its offerings to meet the evolving needs of its customer base. JMOPL operates through its corporate office coupled with market presence throughout major cities of Nepal supported by its extensive distribution channel.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21**	FY22	FY23
	Audited	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	125	-	3,247	2,762
EBITDA Margin (%)	6.79	-	2.74	5.04
Interest Coverage Ratio (x)	2.16	-	2.51	1.76
Current Ratio (x)	67.07	37.42	1.09	1.34
Total Debt/GCA (years)	-	-	11.43	5.89
DSCR (x)	2.35	-	2.16	1.72
Overall Gearing Ratio (x)	-	-	9.60	2.51

Earnings before Interest Tax Depreciation Amortization (EBITDA) Debt Service Coverage Ratio (DSCR)

*Classification as per Infomerics Nepal standards

**Company was non-operational in FY21.

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Short Term Bank Facilities- Fund Based Loans	Short Term	740.00*	IRN A4+
Short Term Bank Facilities- Fund Based Loans (Proposed)	Short Term	80.00	IRN A4+
Short Term Bank Facilities- Non Fund Based Loans	Short Term	800.00**	IRN A4+
Total Facilities		900.00	

*It includes cash credit of NPR 20.00 Mn whereas Term Loan and Short Term Loan of NPR 720.00 Mn are within the limit of Letter of Credit.

**Customer Acceptance for Time of Credit of NPR 500.00 Mn and Bank Guarantee of NPR 0.50 Mn is included in this Letter of Credit limit of NPR 800.00 Mn.

Analyst Contacts

Mr. Saphal Maharjan

Tel No.+977-1-4583304/4585906

saphal.maharjan@infomericsnepal.com

Mr. Atish Ratna Shakya

Tel No.+977-1-4583304/4585906

atish.shakya@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No.+977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com



Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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