

## PRESS RELEASE

### Tele Direct Private Limited

July 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	230.00*	IRN BBB-	Assigned
Short Term Bank Facilities	2,500.00	IRN A3	Reaffirmed
<b>TOTAL</b>	<b>2,500.00</b>		

\*Permanent Working Capital Loan of NPR 230 Mn is within the limit of Short Term Non-Fund Based Loan.

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BBB- (Triple B Minus) to the long term bank facilities of NPR 230.00 Mn and reaffirmed the rating of IRN A3 (A Three) assigned to the short term bank facilities of NPR 2,500.00 Mn.

#### Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Tele Direct Private Limited (TDPL) derives comfort from its parentage of experienced promoter group "Ramesh Corp", supported by proficient and experienced management team leading to better understanding of the market dynamics. The ratings also factor in the group's financial flexibility, TDPL's average financial profile, association with established brands, existence of established dealership network and market presence across Nepal (excluding Kathmandu Valley).

These rating strengths, however, are partially offset by TDPL's non-exclusive agreements with its supplier, working capital intensive nature of operations, 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, coverage & capitalization will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

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

TDPL is an integral part of Ramesh Corp and derives its strength from promoters having strong presence in Nepal through their group entities in broad sectors including manufacturing, service, trading businesses etc. The directors of TDPL have over one decade of experience in trading businesses associated with consumer electronics like mobile phones, home appliances etc. TDPL's Chairman, Mr. Rohit Gupta, is also the Vice Chairman of Ramesh Corp and holds directorship in various other group companies. 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.

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

TDPL is one of two authorized distributors of Xiaomi smartphones for Nepal. In 10MFY24, Xiaomi smartphones accounted for approximately 33% of the total imported phones in Nepal, making it the most imported brand which is indicative of the strong traction towards the Xiaomi brand. Furthermore, TDPL has an adequate and established dealership network across the country, with 32 dealers in FY23. These dealers cover around 1,300 outlets across major cities.

## **Improving financial profile characterized by improvement in EBITDA margin albeit decline in TOI in FY23**

TDPL derives its income from sales of Xiaomi mobile phone since FY19 and in the years leading up to FY18 the company was involved in trading of phones of various other brands. The Total Operating Income (TOI) of the company increased by ~205% in FY21 to NPR 8,004 Mn however the revenue decreased by ~15% in FY22 to NPR 6,819 Mn, followed by 35% decrement in FY23 to NPR 4,432. The decrease in revenue in FY22 and FY23 was primarily due to the tight liquidity conditions, increased inflation, regulatory changes and import restrictions placed on luxurious items like high end phones. Though TOI decreased, EBITDA margin increased to 4.67% in FY23 from 3.21% in FY22. The improvement in the EBITDA margins was primarily due to lower distribution expenses. . However, PAT margin decreased to 1.32% in FY23 from 1.70% in FY22 due to increase in interest expenses and depreciation. The overall gearing ratio improved to 2.01x in FY23 from 3.62x in FY22 and the total debt to EBITDA improved to 2.20x in FY23 to 3.31 in FY22 with decrement in short term borrowing. Similarly, the Total Outstanding Liability (TOL) to Tangible Net Worth (TNW) of TDPL improved to 2.32x in FY23 vis-à-vis 3.83x in FY22. Going forward, stabilization in scale of operation with improvement in overall margins, coverage & capitalization indicator remains crucial.

## **Key Rating Weaknesses**

### **Moderate track record of operations with non-exclusive distributorship agreement**

TDPL has been in the smartphone distributorship business since 2010 for mobile phones of Nokia<sup>1</sup> and Color<sup>1</sup>. After the distributorship agreement with Xiaomi in 2019, these brands being shifted to a sister concern within Ramesh Corp. Furthermore, the nature of agreement between TDPL and Xiaomi is non-exclusive and short-term one (current agreement is annually renewable) and TDPL is one of two authorized distributors for Xiaomi products and has jurisdiction to operate outside of Kathmandu Valley. Therefore, the continuation of the current terms of agreement will Xiaomi also remain a key monitorable.

### **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature. The collection period was 26 days during FY23, increased from 9 days during FY22 owing to flexible credit periods granted to customers on account of competitive market resulting in delay realization of funds. Similarly, the inventory holding period rose to 26 days in FY23 from 16 days in FY22 due to sluggish demand and requirement of safety stock for fulfilling increasing demand. The payment period remained constant at 1 day in FY23 compared to FY22, since TDPL imports its products from other countries such as India, Hong Kong etc. 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. Total operating cycle of the company was 51 days in FY23 increased from 24 days in FY22. The average utilization of fund-based working capital limit has remained around 50% of approved limit in last twelve months ended mid-May, 2024.

### **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 Xiaomi to launch innovative products at a competitive rate and maintain market share globally would have a bearing on the TDPL's short term financial outlook as presently the fortunes of TDPL is linked with Xiaomi.

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

TDPL is partially constrained by regulatory risk arising from various laws, regulations and policies relating to the consumer electronics like mobile phones. Additionally, GNCPL is exposed to foreign exchange fluctuations due to mismatch in currency as the products are imported (in USD) while

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<sup>1</sup> Nokia and Color Mobiles are Ramesh Corp's in house OEM brands

realization of the finished goods is in local currency. Nevertheless, the current pricing policy of TDPL reduces exposure to foreign exchange risk to an extent.

## Analytical Approach: Standalone

### Applicable Criteria:

[Corporate Credit Rating Methodology](#)

### Past Rationale:

[Tele Direct Private Limited: Bank Facilities Rating Assigned](#)

### About the Company:

Tele Direct Private Limited (TDPL) is a private limited company incorporated on December 24, 2009 and is an integral part of Ramesh Corp. TDPL operates as a non-exclusive authorized distributor of Xiaomi smartphones and accessories since September, 2018. TDPL operates through its corporate office coupled with market presence throughout major cities of Nepal (excluding Kathmandu Valley) supported by its extensive distribution channel.

### Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	8,004	6,819	4,432
EBITDA Margin (%)	2.88	3.21	4.67
Interest Coverage Ratio (x)	7.12	3.58	1.75
Current Ratio (x)	1.12	1.16	2.22
Total Debt/GCA (years)	1.97	6.06	6.60
Overall Gearing Ratio (x)	1.66	3.34	2.01

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

*Debt Service Coverage Ratio (DSCR)*

*\*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- Permanent Working Capital Loan	Long Term	230.00	IRN BBB-
Fund Based Bank Facilities- Working Capital Loan	Short Term	1,500.00	IRN A3
Non Fund Based Bank Facilities- LC & BG <sup>2</sup>	Short Term	2,000.00	IRN A3
<b>Total Facilities</b>		<b>2,500.00</b>	

*The total bank facilities of NPR 2,000 Mn for non-fund based facilities includes sub-limit for fund based facilities (working capital loans) which is capped at NPR 1,000 Mn including Permanent Working Capital Loan of NPR 230 Mn. So, the total bank facilities shall not exceed NPR 2,500 Mn at a time.*

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## **About Infomerics Credit Rating Nepal Limited:**

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