

## PRESS RELEASE

### GENERATION NEXT COMMUNICATION PRIVATE LIMITED

October 2024

#### Rating

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Short Term Bank Facilities	1,860.30	IRN A4+	Reaffirmed
<b>Total</b>	<b>1,860.30</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the bank loan rating of IRN A4+ (A Four Plus) assigned to the short-term bank facilities of NPR 1,860.30 Mn.

#### Detailed Rationale

The reaffirmation of rating assigned to bank facilities of Generation Next Communication Private Limited (GNCPL) continues to derive strengths from its experienced promoter group, Bhimsaria Group, and an experienced management team. The rating also factors in GNCPL's improving revenue base, established dealership network and market presence across major cities.

However, these rating strengths are partially offset by GNCPL's moderately leveraged capital structure and the working capital intensive nature of operations, with high reliance on external financing. Additionally, the rating notes risk of supplier concentration, non-exclusive agreements with suppliers, intense competition with risk of technological obsolescence, exposure to government regulations and foreign exchange fluctuations. Going forward, GNCPL's ability to maintain operational scale while improving the profitability margins, coverage and capitalization indicators, alongside efficient working capital management, will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### Moderate track record of operations with experienced promoters and management team

GNCPL has a moderate track record of over a decade in trading various consumer electronics since its inception in 2010. The company is a part of Bhimsaria Group and derives its strength from promoter having strong presence in Nepal through its entities in trading, manufacturing, real estate and other sectors. GNCPL is led by Mr. Pawan Kumar Bhimsaria, Managing Director, who has over four decades of experience in banking, trading and manufacturing sector. Furthermore, the board is supported by a proficient and experienced management team.

##### Average financial profile

Total Operating Income (TOI) of GNCPL declined substantially to NPR 2,218 Mn in FY23 from NPR 3,571 Mn in FY22, mainly due to the impact on sales of iPhones due to import ban placed on smartphones costing above USD 300<sup>1</sup> from April 2022 till mid-December 2022. With the lifting of the ban and increased sales volume, GNCPL was able to book NPR 4,329 Mn TOI in FY24. Also, EBITDA<sup>2</sup> margin and net profitability margin of the company stood moderate at 5.21% and 2.32% in FY24 (9.50% and 2.70% respectively in FY23). The capital structure of the company stood moderately leveraged at 2.13x as of mid-July 2024, improved from 2.59x as of mid-July 2023, owing to company's high reliance on working capital limits. Interest coverage ratio stood moderate at 2.62x in FY24 (FY23: 1.78x). Going forward, GNCPL's ability to stabilize scale of operations while improving the profitability margins, coverage & capitalization indicators remain key monitorable.

<sup>1</sup> ceiling was revised to USD 300 from USD 600 on July 17, 2022

<sup>2</sup> Earnings before interest tax depreciation and amortization

## **Established dealership network, brand and market presence**

GNCPL is the sole authorized distributor of "Apple" products and one of three authorized distributors of "Dell" products in Nepal. GNCPL deals with products from Apple and Dell, which are known for their strong brand recognition, brand recall, and high consumer demand. Furthermore, GNCPL has an adequate and established dealership network across major cities in the country. Currently, GNCPL has over 100 dealers for Dell products and has 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**

### **Non-exclusive distributorship agreement with Apple and Dell**

Apple and Dell electronic devices make up the majority of the sales of GNCPL. Moreover, GNCPL's reliance on brand 'Apple' has been growing in recent years (~57% in FY21 to ~96% in FY24). GNCPL does not have exclusive dealership agreements with its suppliers, which remains a concern despite the company's long term association with the suppliers. Given the non-exclusive agreement, any change in terms could significantly impact GNCPL's operational and financial performance. Additionally, disruptions in the supply chain could lead to delays in revenue recognition and financial losses for GNCPL. Nonetheless, given the fact that the company is the only authorized distributor for Apple products at present, provides some comfort.

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

The operations of GNCPL are working capital intensive, characterized by higher average collection period and significant inventory holding. The company maintains inventory to ensure smooth operations, especially since its product supply relies entirely on imports. In addition, GNCPL offers credit period to its customers. Also, procurements are typically backed by Letters of Credit. As a result, the company has a high reliance on bank financing to fund its operations. Nevertheless, the operating cycle improved to 63 days in FY24 from 114 days in FY23 mainly due to improved debtor collection.

### **Existence in competitive industry coupled with technological obsolescence risk**

The product life cycle of consumer electronics, such as laptops and mobile phones, is typically short due to rapid changes in technology and intense global competition among manufacturers. As a result, the performance, scale of operations, and profitability of GNCPL are closely linked to the brand value and performance of the OEMs<sup>3</sup>. The ability of Apple and Dell to launch innovative products would have a bearing on GNCPL's financial outlook.

### **Exposure to regulatory and foreign exchange fluctuation risk**

GNCPL's operations are partially constrained by regulatory risk arising from various laws, regulations and policies relating to consumer electronics such as 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 sales are realized in the local currency. The company's ability to pass on price changes to the customers and managing foreign exchange fluctuation risk will remain critical.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

[Bank Loan Rating Methodology](#)

### **Past Rating Rationale:**

[Generation Next Communication Private Limited: Bank Facilities Rating Assigned](#)

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<sup>3</sup> Original Equipment Manufacturers

## About the Company:

Generation Next Communication Private Limited (GNCPL) is a private limited company established on August 04, 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 distributors 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 established distribution channel.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	1,953	3,571	2,218	4,329
EBITDA Margin (%)	5.43	6.20	9.50	5.21
Interest Coverage Ratio (x)	1.94	2.76	1.78	2.62
Current Ratio (x)	1.05	1.08	1.16	1.21
Overall Gearing Ratio (x)	3.60	4.43	2.59	2.13

\* Classification as per Infomerics Nepal standards

## Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Working Capital Loans	Short Term	1,050.00	IRN A4+
Fund Based Bank Facilities- LC/BG	Short Term	810.30	IRN A4+
<b>Total Facilities</b>		<b>1,860.30</b>	

LC/BG: Letter of Credit/ Bank Guarantee

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## About Infomerics Credit Rating Nepal Limited:

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