

## F1 Soft International Private Limited: Ratings reaffirmed

December 16, 2024

### Summary of rating action

Instrument (Amounts in NPR million)	Previous rated amount	Current rated amount	Rating Action
Fund based; long-term loan limits (Term loan)	451.2	491.2	[ICRANP] LBBB+; reaffirmed
Fund based; short-term limits (Working capital loan)	120.0	120.0	[ICRANP] A2; reaffirmed
Non-fund based; short-term loan limits (Bank guarantee)	200.0	200.0	
<b>Total</b>	<b>771.2</b>	<b>811.2</b>	

### Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBBB+ (pronounced ICRA NP L triple B plus) to the long-term loan limits of F1 Soft International Private Limited (F1 Soft or the company), and also reaffirmed the short-term rating of [ICRANP] A2 (pronounced ICRA NP A two) to its short-term loan limits.

### Rationale

The ratings reaffirmation continues to derive comfort from the company's long track record (since 2004), its experienced board and management team and a strong operational profile as the pioneer and leader in Nepal's fintech ecosystem, through a range of subsidiaries. The ratings action also considers the company's improved capitalization indicators with gearing of 1.0 times as of mid-July 2024 (1.8 times as of mid-January 2023; last rating exercise), which was mainly supported by the company's improving internal accruals (especially during FY2024, amid controlled dividend payout compared to FY2023). The company has also reported slight improvement in operating profit margins (OPM) in FY2024, with marginal recovery in the operating income (OI), after the dip in FY2023, which remains a positive. This, along with healthy non-operating income levels (mainly dividend and gain on disposal of investment), has aided the improvement in coverage indicator with debt service coverage ratio (DSCR) of ~3.3 times in FY2024 (1.9 times in H1FY2023). Over the years, F1 Soft's multiple subsidiaries/associates have achieved good penetration in the Nepalese Fintech ecosystem offering multiple services, who are gradually monetising selected transactions, thus resulting in improved earnings potential for the subsidiaries, and thus higher dividend prospects for F1 Soft in future. Further, growing usage of digital payments augurs well for the incremental growth and profitability prospects of the F1 Soft Group, led by the company itself.

Nonetheless, the ratings mainly remain constrained by the company's major divestment (80% divested as against earlier 100% holding) of its highest profit-making subsidiary i.e., Esewa Private Limited (eSewa, a payment service provider – digital wallet) during FY2024, to its own shareholders (in similar proportion as their stake in F1 Soft). Additionally, the company has started a new venture i.e., Nepal Mobility Solutions Private Limited (NMS, operator of a ride sharing platform), which currently requires sizeable liquidity injection, being in initial years of operation (albeit the quantum of cash burn seems in a declining trend). However, the dual concerns on diminished dividend income potential from eSewa and loss support requirements for NMS, are partly offset by the improving operational and financial profile of another majority owned subsidiary i.e. Fonepay Payment Services Limited (Fonepay) and the residual stake in eSewa (wherein the remaining 20% stake could also support dividend income prospects given the steadily increasing profitability of eSewa). The ratings also remain constrained by the regulatory risks for the fintech industry, in addition to the technology-related risks and the requirement for regular capex at the group level. The company's revenue concentration towards the thin margin based digital top-up sales (~98% of FY2024 revenues) also remains a rating concern. The ratings are also impacted by the increasing competition from other payment service operators (PSOs), although partly mitigated by the group's presence in all spheres of the digital payment ecosystem. Going forward, the company's ability to

maintain/improve its operational/financial profile and its capitalisation and coverage indicators, will remain the key rating sensitivity. To that end, higher than expected dividend payout by F1 Soft, its incremental stance in divestment from profitable investees and the trends in liquidity support requirements across new/yet-to-be established ventures could have a downward pressure over the assigned ratings.

## Key rating drivers

### Credit strengths

**Long track record; experienced board/management profile** – The company is in operation since 2004 and has gradually increased its presence across the fintech domain (through multiple subsidiaries) over the years. F1 Soft is among the oldest company within the Group, having direct/indirect investments in most of the group companies including digital wallet (albeit stake has reduced sharply after last rating) and payment gateway services. The company’s promoter and management team have an extensive experience in information technology (IT) and fintech sector, which remains a positive for incremental business performance.

**Strong operational profile in Nepal’s fintech ecosystem** – F1 Soft Group is the pioneer in the Nepalese fintech industry and has developed mobile banking and internet banking systems for most of the banks and financial institutions (BFIs) in Nepal. As of mid-July 2024, 45 out of 54 BFIs (excluding the micro finance companies) were covered by the mobile and internet banking software developed by the company. F1 Soft is also engaged in bulk trading of digital top-up and SMS services of telecom companies, internet service providers (ISPs), among others, wherein it enjoys the leadership position given the strong subscriber base under F1 Soft group (through the member BFIs). The company’s multiple subsidiaries and associates, involved in the fintech sphere, strengthens its position and brand value in the industry. Growing usage of digital payments in Nepal is expected to support the incremental growth and profitability prospects for the Group.

**Improved margin and satisfactory financial profile** – The company’s OPM has slightly improved to 1.8% in FY2024 (1.5% during H1FY2023) with a marginal increment in revenue (~5% growth during FY2024). Further, the net margins also continue to remain healthy, supported to an extent by the dividend income from its subsidiaries (in addition to the gain on sale of 80% stake in eSewa in FY2024, which accounted for ~79% of the non-operating income during the year). This has supported the company’s DSCR metrics which stood at 3.3 times for FY2024 (1.9 times for H1FY2023). Additionally, the company’s capitalisation also remains satisfactory with gearing of 1.0 times and total debt to OPBITDA of 2.8 times for FY2024 (notwithstanding the gradual increase in recent years). With the improved internal accruals during FY2024, gradual downsizing of term debt and probable dividend prospects going forward, the coverage and capitalisation metrics are expected to improve going forward.

### Credit challenges

**Divestment of majority stake from highest profit-making subsidiary** – F1 Soft divested its majority stake (80% divested), from its highest profit-making subsidiary i.e., eSewa to its own shareholders (in similar proportion as their stake in F1 Soft). Although it establishes an exit history (with ~167% gain) for F1 Soft (the holding company for all group entities), divestment from such growing business (~55% CAGR in net profit in last three years ending on mid-July 2024) would impact the dividend prospects for the company going forward. Additionally, the trends in initial loss support requirement in F1 Soft’s newly established venture i.e., NMS (despite the quantum of losses being in the declining trend) will remain a key rating monitorable. However, the improvement in profitability of another subsidiary i.e. Fonepay (a payment service gateway) with ~840% growth in net profit during FY2024 and dividend prospects from residual stake in eSewa provides some comfort. Hence, any incremental investment/divestment decisions, impacting overall financial/liquidity profile of the group would remain a major rating sensitivity.

**Recent high dividend pay-out and revenue concentration risk** – The company also paid out sizeable dividends during FY2023 and FY2024 (200% and 100% of its share capital out of FY2022’s and FY2023’s profit, with ~48% of FY2023’s dividend being paid out as interim dividend within FY2023 itself). At the same time, the company availed further fresh term loans for investment in subsidiaries during FY2024, which can be partly attributed to the funding commitment of F1 Soft towards the new ventures/subsidiaries. Future continuation of similar dividend policies, unless mitigated by

increased operational/dividend inflows, could pressurize its future liquidity profile and will therefore remain a key rating monitorable. Further, ~98% of the company's revenue is derived from the resale of products and services (includes digital top-up and bulk SMS service of telecom companies) which is a thin margin business. Hence, the company's revenue remains vulnerable to margin reduction from telecom operators. Further, this creates a product concentration risk, as any impact on these segments could moderate the company's overall financial position.

**Regulatory and technological risks** – IT and fintech companies in general, remain susceptible to any significant changes in government policies and regulations which could have a bearing on the company's performance. Further, the group requires regular capex to upgrade its services/quality, keep up with the technological advancement as well as to ensure adequate data safety which could pressurize the company's reserves position. Additionally, the major group companies (eSewa, Fonepay and Esewa Money Transfer P. Ltd, a remittance company) are regulated by the central bank, exposing the group to regulatory risks as well.

**Link to the previous rating rationale:**

[F1-Soft-International-Pvt.-Ltd. Fresh-BLR May-2023](#)

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

**Link to the applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company

Incorporated in March 2004, F1 Soft International Private Limited (F1 Soft) is a fintech company which has developed mobile banking and internet banking systems, which are utilized by major BFIs of Nepal. The company is also engaged in bulk trading of digital top-up of mobile phone balances and other utilities as well as bulk SMS services. F1 Soft also acts as holding company for the group and hence has multiple subsidiaries and associates operating across fintech spectrum such as a digital wallet company (Esewa Private Limited), a payment gateway company (Fonepay Payment Service Limited) etc, in addition to other utility and tech-based companies. Mr. Biswas Dhakal is the major shareholder of the company with ~35% stake and is also its Chairperson and President.

## Key financial indicators (standalone\*)

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Provisional)
Operating income (OI; NPR million)	11,787	15,640	12,195	12,840
OPBITDA/OI (%)	1.0%	1.6%	1.9%	1.8%
Total debt/Tangible net worth (TNW; times)	0.6	1.2	1.0	1.0
Total outside liabilities/TNW (times)	1.8	3.1	2.6	2.4
Total debt/OPBITDA (times)	1.6	2.2	2.3	2.8
Interest coverage (times)	9.7	5.5	3.9	3.9
DSCR (times)	2.9	3.3	4.3	3.3
Net working capital/OI (%)	-2%	-2%	-3%	-3%
Current ratio	0.5	0.7	0.4	0.3

Source: Company data

\* The company provided the consolidated financials for FY2022 and FY2023 only, which however were subject to audit. Consolidated provisional financials for FY2024 were not made available due to pending accounts finalization for few of its subsidiaries. While ICRA Nepal has taken the consolidated view for assigning the ratings, the numbers and ratios quoted in the rationale above are entirely standalone, in lack of the recent consolidated numbers.

## Key financial indicators (Consolidated)

	<b>FY2022 (Provisional)</b>	<b>FY2023 (Provisional)</b>
Operating income (OI; NPR million)	22,949	21,921
OPBITDA/OI (%)	1.5%	1.8%
Total debt/Tangible net worth (TNW; times)	1.1	0.9
Total outside liabilities/TNW (times)	6.6	8.3
Total debt/OPBITDA (times)	2.1	1.7
Interest coverage (times)	6.3	5.8
DSCR (times)	4.6	5.0
Net working capital/OI (%)	-13%	-19%
Current ratio	1.1	1.1

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### About ICRA Nepal Limited

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