

Worldlink Communications Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,196.00 (Decreased from Rs. 2,290.55 Mn)	CARE-NP A [Single A]	Reaffirmed and removed from credit watch with negative implications
Short Term Bank Facilities	1,750.00 (Increased from Rs. 1,210.00 Mn)	CARE-NP A2+ [A Two Plus]	Reaffirmed and removed from credit watch with negative implications
Total	3,946.00 (Increased from 3,500.55)		

Annexure-1 Details of Facilities/Instruments to be rated

CARE Ratings Nepal Limited (CRNL) has reaffirmed and removed the ratings of 'CARE-NP A' assigned to the long-term bank facilities and 'CARE-NP A2+' assigned to the short-term bank facilities of Worldlink Communications Limited (WCL) from credit watch with negative implications.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of WCL have been removed from credit watch with negative implications following the resolution of the settlement of prior period claims related to royalty and RTDF payments. This resolution of claims stems from the final verdict delivered by the Supreme Court on May 13, 2024, and subsequent amendments to telecommunication regulations governing license renewal terms and conditions. WCL has already discharged its related liabilities, with the payment made on November 14, 2024. This is not expected to have material impact on the company's credit and liquidity profile.

The reaffirmation of ratings assigned to WCL factors in its resilient financial risk profile marked by steady increase in scale of operations and healthy profitability margins underpinned by its dominant market position in ISP industry, comfortable capital structure and adequate debt service coverage indicators during FY24 (Audited; FY refers to the twelve-month period ending mid-July) and 9MFY25 (Unaudited; refers to the nine-month period ended mid-April 2025). Barring one-time impact of prior period royalty and RTDF payments during FY24, gross cash accruals of the company continue to remain strong in 9MFY25. The ratings continue to derive strength from its established track record of operations, strong brand presence in ISP industry being the market leader supported by steady growth in its subscriber base over the period, experienced board and management team in the related field, investment from strong institutional shareholders, and wide portfolio of services offering reasonable revenue visibility. The ratings take note of WCL's, increased efforts for market penetration with latest technology and resources to increase outreach. The ratings are, however, constrained by high capital and technology intensive nature of the ISP industry and requirement for regular investments for network expansion. The ratings also factor in increasing competition in the industry with fragmented market leading to moderation in profitability amid increasing pricing pressure, exposure to foreign exchange fluctuation risk, susceptibility to regulatory changes and technological risk associated with the ISP business.

Going forward, the ability of the company to maintain the growth in scale with sustained profitability while maintaining capital structure will remain the key rating sensitivities. Also, the ability of the company to withstand the increasingly competitive business environment in internet business and maintain market share as well as any substantial debt funded capital expenditure, impacting the overall financial risk profile of the company will also remain the key rating sensitivities.

¹Complete definition of the ratings assigned are available at <https://www.careratingsnepal.com/> and other CARE publications

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced board and management team

WCL has five experienced directors on its board led by Mr. Dileep Agrawal, Chairman of the company. Mr. Agrawal completed his graduation in 1996 from Bates College, Maine, United States and is the promoter of the company who conceptualized WCL. He is responsible for overall corporate management and development of the company. Mr. Manoj Kumar Agrawal, Executive director and Mr. Laxman Kumar Yadav, Director of the company are associated with WCL since inception. The directors of the company are aptly supported by a team of experienced professionals.

Support from strong institutional shareholders

WCL has received series B investment of Rs. 1,080 Mn from British International Investment (BII) (formerly known as CDC Group plc (CDC)) and Rs. 900 Mn from Dolma Impact Fund in January 2023 and March 2023 respectively. With series B investment, total foreign investment in the Company had reached Rs. 2,980 Mn as on mid-July, 2024. The amount received as FDI is being utilized in expanding the network infrastructure of the company. BII is UK's development finance institution, wholly owned by the UK Government. Dolma Impact Fund is an institutional investor and is the first commercial impact fund setup in Nepal for providing growth capital to Small and Medium Enterprises (SMEs) with strong entrepreneurial and management capacities. Additionally, WCL has also entered into agreement in November 28, 2024 with Finfund for Foreign Direct Investment (FDI) to the tune of Euro 10 Mn.

Long track record of operations and strong reach and brand presence in ISP service

WCL has been operational in Nepal for nearly three decades and is currently the leading ISP company operating in the country. The active subscriber base of company is increasing on sustained basis and stood at 1 Mn as on mid-April, 2025. The company occupies over ~32% market share in the retail ISP segment in the country as on mid-April, 2025. WCL carries over 40% of the country's Internet bandwidth and has widespread coverage covering 70 plus districts and has 10,000 plus enterprise circuits connected to offices and organizations. The company had 140 branches across Nepal as on mid-July, 2024.

Sustained leadership position in market backed by steady growth in subscriber base, albeit with decline in ARPU

WCL is Nepal's largest Internet Service Provider. As per the report published by Nepal Telecommunications Authority, total internet subscriber base of Nepal was 3,130,655 as on mid- April, 2025. WCL is the market leader in internet subscriber base of Nepal in fiber segment, with ~32% of market share. However, Average Revenue per Unit (ARPU) of the company has been declining on year-on- year basis and declined to 927 Per user in FY24 from Rs. 987 Per user in FY23. These have further reduced to Rs. 861 per user in 7MFY25 induced by various promotional packages and discounts offered due to pricing pressure among the market competitors in the industry, particularly within the valley. Going forward, APRU levels are likely to remain muted which might have a bearing of on the company's profitability over the near-term. However, this is expected to be offset to some extent by cost advantage arising from economies of scale over the medium term.

Satisfactory financial performance

The financial performance of the company continues to remain satisfactory supported by sustained increase in subscriber base amid surge in demand for internet in the industry. TOI of WCL grew by ~7.70% y-o-y to Rs. 11,128 Mn in FY24. Out of total revenue earned in FY24, ~50% of revenue was through sale of ISP services and ~42% through monitoring and technical support and remaining ~8% through sales of NSP Service, sale of equipment and other sales. While internet

bandwidth expenses declined during the year, other operational costs such as lease, rent, power, and employee benefits rose due to ongoing network expansion efforts. Additionally, royalty and RTDF charges, constituting 4% of revenue and 2% of revenue respectively increased in FY24. These charges are now applicable not only to ISP revenue but also to revenue from monitoring and technical support services, which accounted for ~42% of total revenue in FY24. This led to a slight moderation in PBILDT margins, which declined to 31.45% in FY24 from 33.45% in FY23. The company reported net loss in FY24 primarily due to prior period expenses amounting to Rs. 2,151 Mn related to royalty and RTDF payments on monitoring and technical charges. Gross Cash Accruals (GCA) stood at Rs. 916 Mn in FY24, compared to Rs. 2,502 Mn in FY23. The growth momentum has continued during 9MFY25 with the company reported TOI of Rs. 8,723 Mn, reporting ~9% y-o-y growth. PBILDT margins stood at 30.51% during 9MFY25. The rebound in margins depends upon the company's ability to increase its scale of operations and optimize its fixed cost.

Comfortable capital structure and debt coverage indicators

WCL had undertaken significant capital expenditure for setting up network infrastructures in new locations over past couple of years to improve its market penetration, the funding for which were met primarily through equity infusion and internal accruals. Also, the company has currently set up separate Special Purpose Vehicle (SPV) to develop data center project across the nation. The company's networth base diluted on account of reported net losses at the end of FY24. Despite the same, the overall gearing ratio of the company has remained stable at 0.78x and 0.79x in FY23 and FY24 end respectively backed by reduction in debt levels due to scheduled repayments of term loan. The interest coverage ratio improved to 10.96x in FY24 from 6.92x in FY23 driven by the reducing debt levels as well as moderating interest rates during the second half of FY24. However, on account of lower cash accruals in FY24, total debt/ GCA increased to 2.75x as on mid-July, 2024 from 1.50x as on mid-July, 2023. The company has availed term loan and working capital loan of Rs. 2,062 Mn in 9MFY25 for financing the payments related to prior period royalty and RTDF that was settled on November 14, 2024, resulting in slight uptick in overall gearing ratio. Nonetheless, overall gearing ratio stood low at ~1x as on mid-April, 2025. Interest coverage ratio further improved to 15.56x in 9MFY25. Lower debt levels, combined with an expected improvement in tangible net worth driven by significant equity infusion and healthy profit accruals are likely to enhance the company's overall gearing ratio going forward.

Diversified portfolio of services offering revenue visibility

WCL offers a wide array of services to a well-diversified client base and revenue ISP services is a major component of the total income. The company reported ~42% of its revenues from retail customers in ISP Service and ~8% from corporate customer in ISP Service during FY24. Although ISP constitutes the major component of total income, the company also books sizeable revenues from monitoring and technical support, data connectivity and other sales. WCL has managed to maintain its dominant market share in Nepal and also increase its subscription revenues. The ability of company to retain the acquired customers, thereby reducing churn through competitive pricing and content offering while maintaining its profitability would be key to its future prospects.

Latest technology and resources to increase outreach

WCL is the pioneer in fiber connectivity in Nepal and is the first private company in the country to connect through satellite. It is also the first company to have its own wireless trunk network. WCL introduced FTTH (Fiber to the Home) technology in 2012, after years of research. In 2018, the company announced a partnership with the Finnish multinational IT infrastructure firm Nokia to expand its FTTH network to reach out to one million Nepali households. WCL's updated technology makes it capable of competing globally because of the same technological parity.

It is the first company in Nepal to update its network to XGS-PON. With this innovation, the company will be able to provide more than 1Gbps connection to its customer in coming days. As of late, WCL has introduced Nokia Wi-Fi Beacon the in-home router with built-in insights screens. Its predominant innovation guarantees unmatched Wi-Fi scope and ensures high-speed web association on each gadget. WCL's upgraded innovation makes it competent of competing all-inclusive since of the same innovative equality.

Key Rating Weakness

High capital and technology intensive nature of industry

It is an inherent nature of telecom industry which requires high capital investments and long gestation period necessitating substantial funding support. Currently, WCL's fiber network is mostly concentrated to major cities with dense population. In order to increase its footprint WCL is planning to roll out additional fiber coverage on their network. Rolling out fiber network in remote areas of Nepal is a capital-intensive business which were financed through additional debt, fresh equity infusion and internal accruals. To remain competitive in the ISP business, substantial capital expenditures is a necessity going forward as well. The company's ability to arrange a judicious mix of equity and debt funding for its capex need in the future remains critical from credit perspective. Substantial outside debt to fund the future capex could translate to moderation of debt coverage indicators.

Increasing competition in the industry with fragmented market

With increasing digitization, number of ISPs in the country is high. The competitors for WCL's internet and related network services include not only other internet service providers, but also existing telecommunications companies planning to increase their presence in the segment. Predatory pricing of any new entrant in this segment may adversely impact WCL's market share and ARPU levels. Also, currently the ISP industry in Nepal is fragmented with numerous smaller unorganized players active in small pockets of the market. In order to meet customer expectation of availing internet in low pricing, the prices have come down steadily over the past 2-3 years, thereby affecting the margins of ISPs. Many competitors' resort to predatory pricing in order to poach customers.

Exposure to foreign exchange fluctuation risk

The CPE installed at the subscribers' premise are majorly imported from China and payment is done in foreign currency. The procurement of CPEs which is positively correlated with the growth in subscriber base leads to large outflow of forex. WCL has no earnings in foreign currency, however the company manages its foreign currency risk by not holding the payables in foreign currency for longer duration. During FY24, WCL booked net foreign exchange loss of Rs.34 Mn.

Susceptibility to regulatory changes

The cost of infrastructure provided by the government to ISP's is on increasing trend. Effective from mid-July 2019, the Nepal government levied Telecommunication Service Charge (TSC) on internet subscription in addition to the existing 13% Value Added Tax (VAT). The newly levied service charge was adjusted in the cost of the ISP's without increasing the consumer prices. Further, in August 2019, Nepal Electricity Authority (NEA) has sought to hike the fee for its infrastructure being used by the ISPs, which is likely to take upward the cost of internet use. WCL along with other ISPAN (Internet Service Providers of Nepal) members have not accepted the proposed rate and hence due to this disagreement, NEA has not raised any invoice in the previous and current financial year. Government of Nepal has set up a High-Power Committee in order to resolve the issue. Also, company has been booking expenses on the basis of previously raised invoices by NEA and in the event if the decision is in favor of NEA the impact on the financial profile of the company is expected to be minimal.

Technological risk associated with ISP business.

Technology related companies are in particular prone to obsolescence risk and their revenues can be significantly affected with technology risk wherein the end users migrate from obsolete technologies to most recent technology. Therefore, this risk remains a concern for the company, if company is not able to timely upgrade itself to latest technologies. New technology may have short lifecycle considering the continued spend on Research & Development and faster adoption of new technologies. Any change in technology may impact the operations of the broadband industry. However, WCL has been continuously involved in research and development activities to on-board new technologies in Nepal.

About the Company

Worldlink Communications Limited (WCL) was incorporated on January 21, 1996 as a private limited company and later converted to public limited company on April 24, 2019. WCL is Nepal's largest Internet Service Provider with around 3 decades in the industry under the brand name of 'Worldlink'.

Brief Financials of the company during last 3 years is as under

(in Rs. Million)

For the year ended mid-July	FY22	FY23	FY24
	Audited	Audited	Audited
Income from Operations	9,391	10,332	11,128
PBILD Margin	31.88	33.45	31.45
Overall Gearing (times)	1.66	0.78	0.79
Interest coverage (times)	11.70	6.92	10.96
Total Debt/GCA	1.84	1.50	2.75

Annexure-1 Details of Facilities/Instruments to be rated

Name of Instrument	Type of Facility	Amount (Rs in Million)	Rating
Long Term Bank Facilities	Term Loans	2,196.00	CARE-NP A
Short Term Bank Facilities	Fund Based/ Non-Fund Based	1,750.00	CARE-NP A2+
Total		3,946.00	

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About CARE Ratings:

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