

SYSKA LED Lights Pvt Ltd

Ratings

Facilities	Amount (Rs. crore)	Rating1	Remarks
Fund Based- Long Term – Cash Credit/WCDL	90.00	CARE A- (A Minus)	Assigned
Short Term – Non- Fund Based – (LC/BG)	52.00	CARE A2 (A Two)	Assigned
Total facilities	142.00 (Rupees One hundred and forty-two crore only)		

Rating Rationale

For arriving at the ratings, CARE has combined the business and financial risk profiles of Shree Sant Kripa Appliances Pvt. Ltd (SSKAPL) with its group companies, viz, Bagh Bahar Appliances Pvt Ltd (BBAPL), SSK Retail Pvt Ltd (SSKRPL), SYSKA Led Lights Pvt Ltd (SYSKA LLPL), Shree Sant Kripa Accessories Pvt Ltd and SSK Infotech Pvt Ltd (SSKIPL), as the six entities have a similar line of business and are held by the same promoter Shree Sant Kripa group. SSKAPL, BBAPL, SSKRPL, SYSKA LLPL, SSKIPL and Shree Sant Kripa Accessories Pvt Ltd on a combined basis are referred to as SSK group in the rationale discussed below.

The ratings assigned to the bank facilities of Shree Sant Kripa Appliances Pvt. Ltd (SSKAPL) derive strength from the extensive experience of the promoters in the mobile distribution business, large scale of operations and presence across business segments with widespread distribution network and moderate overall gearing and debt coverage indicators. The ratings are further strengthened by SSK's established and 'strong' market position backed by association with leading brand "Samsung" in the mobile distribution space.

However, the ratings continues to be constrained by low profitability margins (an inherent characteristic of mobile distribution business), low bargaining power with the principle/suppliers, intensely competitive nature of mobile distribution business, working capital intensive nature of operations and exposure to technology obsolescence risk.

The ability of the company to manage effectively its incremental working capital requirement, maintain its control over assigned territory and ability of its Principle (Samsung) to maintain its market share are the key rating sensitivities.

Background

The SSK Group comprises the following entities:

1. Shree Sant Kripa Appliances Pvt Ltd (SSKAPL)
2. Bagh Bahar Appliances Pvt. Ltd (BBAPL)
3. SSK Infotech Pvt Ltd (SSKIPL)
4. SSK Retails Pvt Ltd (SSKRPL)
5. SYSKA Led Lights Pvt Ltd (SYSKA LLPL)
6. Shree Sant Kripa Accessories Pvt. Ltd.

SSKAPL is the flagship company of the Pune-based SSK group. It is promoted by Mr Govind Uttamchandani and Mr Rajesh Uttamchandani. The company was originally established as a partnership firm in 2002, and was reconstituted as a private limited company in 2006. It is the exclusive distributor of Samsung mobiles, accessories, and tablets for five states in India: Gujarat, Maharashtra (inclusive of Mumbai), Goa, Madhya Pradesh, and Chhattisgarh. It is also a distributor of Samsung home appliances in the Mumbai region.

BBAPL is a closely-held private limited company and dealer of the flagship company SSKAPL. BBAPL is the exclusive distributor for Samsung home appliances in Jalgaon, Aurangabad, and Pune in Maharashtra, and in Goa and mobile distribution in Pune.

SSKIPL provides electronic data services and solutions to telecom and MNCs; and printing and mailing activities such as printing of cheques and current/savings account statements, mainly for banks. It has four printing facilities based out of Pune, Mumbai, Gurgaon and Hyderabad.

SSKRPL are dealers in a wide range of telecom devices/appliances, accessories and peripherals. SSKRPL operates 34 Samsung Smart Phone Cafes across India (in Maharashtra, MP, Gujarat and Goa). It also deals in Mobile Gadget Secure of SYSKA brand. SSK group forayed into electrical fittings in FY14 (refers to the period April 1 to March 31) through establishment of **SYSKA LLPL**. The company is in the business of manufacturing, importing, testing, and sale of LED technology, Solar PV solutions, Hi Tech Batteries System Integration, Solar-based UPS & Inverters. It imports LED products from various OEM's in China and South

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

Korea, assembles and sells under its brand name SYSKA. SYSKA LED does business in 18 states in India through 450 distributors and exclusive retail showrooms at 70 locations and is setting up operations in International markets as well. The imported components are assembled at its group companies facility at Rabale in Maharashtra and TTC industrial area.

Shree Sant Kripa Accessories Pvt. Ltd engages in the trading of mobile and computer accessories.

Credit Risk Assessment

Experienced promoters with long track record in Mobile Distribution business

SSK group is promoted by Mr Govind Uttamchandani and Mr Rajesh Uttamchandani, who have a rich experience of over two decades in the mobile distribution industry. Mr Govind Uttamchandani is a qualified B.Tech-Chemical Engineer & an MBA with an experience of over 28 years in distribution of Indian and International brands, while Mr Rajesh Uttamchandani is a B.E- Mechanical Engineering by qualification and has a rich experience of around 26 years in distribution of Indian and International brands such as T-Series, Philips, LG, Nokia, and Samsung. The group has a long track record of operating in the mobile distribution segment and has established itself as a sole distributor of Samsung in the five states of India.

Large scale of operations in mobile distribution and presence across business segments including mobile handsets and accessories, home appliances, electrical fittings and data printing

SSK group with a turnover of Rs.7,984 crore in FY15 is relatively a large player in the distribution business. The group has done a turnaround with diversification across the business segments and has grown significantly over the last few years. Apart from Samsung mobile distribution, the company is having presence in distribution of Samsung home appliances and mobile accessories. It also provides electronic data delivery, printing of cheques and current/savings account statements to banks/ financial institutions. The group has recently forayed into assembling and selling LED lights under its brand name 'SYSKA'.

The SSK group reported a revenue CAGR of 24% in the period FY13-15, with major revenue contribution coming from SSKAPL (88.4% in FY15) through its wholesale mobile distribution business; however, the sales growth in SSKAPL was muted in FY15 on account of competition from various Chinese players including Gionee, Oppo, Vivo, etc. Nonetheless, SSK group's other business segments of LED lights operating under SYSKA LLPL (204% y-o-y in FY15) and retail mobile distribution through SSKRPL (46% CAGR in FY13-15), have contributed significantly to the growth in consolidated revenues in the period FY13-15 and are expected to augment the revenue growth going forward.

Widespread distribution network with a strong market position viz. sole distributor of Samsung mobiles handsets in five states of India

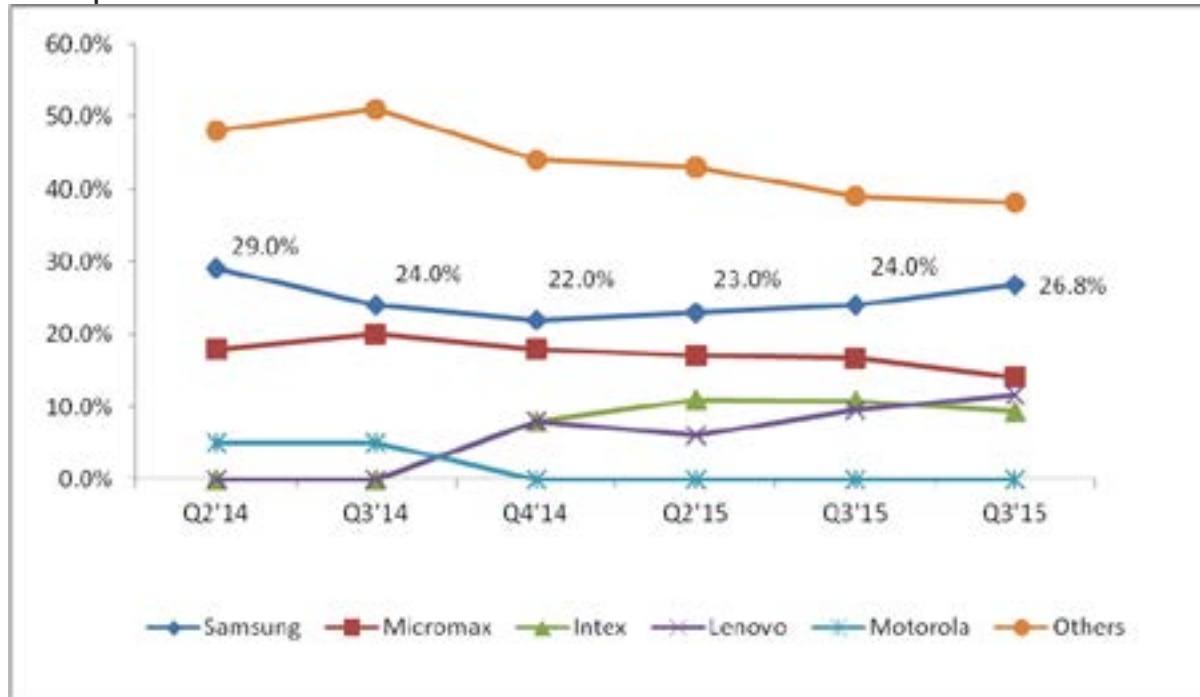
SSK group enjoys a strong market position in the mobile distribution business as it has the sole National distributorship of mobile handsets and tablets for Samsung India Electronics Pvt Ltd (Samsung) in five states of India, namely, Gujarat, Maharashtra (inclusive of Mumbai), Goa, Madhya Pradesh & Chhattisgarh. The group has over 150 Distributors (Multiband Dealers) called as Regional Distributing Sales (R.D.S.) centre and more than 2000 sub-distributors under the R.D.S. across 5 states of India. Besides, the group has set up a chain of 34 mobile retail shops in the states of Maharashtra, Madhya Pradesh, Gujarat and Goa in order to expand the retail side of distribution. The sales of SYSKA LED lights are routed through a channel network comprising of 450 distributors all over India and around 70 exclusive retail showrooms in prominent cities (Mumbai, Pune and Delhi). The group has around 800 people on pay rolls of SSKAPL - Directly and 1400 ISD (in shop demonstrators for marketing of Samsung products) indirectly.

Established market presence backed by highest market share of Samsung in domestic market

SSK group has exclusive distributorship of Samsung Smartphones and tablets in Gujarat, Maharashtra (inclusive of Mumbai), Goa, Madhya Pradesh & Chhattisgarh. The principal Samsung has been having the largest market share in India over the years. According to the latest quarterly data from International Data Corp (IDC), Samsung Electronics is number one in India with 26.8% market share followed by Micromax having share of 14.1% in Q4'15. Lenovo and Motorola combined is the third largest player in the domestic market with market share of 11.60% in Q4'15. IDC expects smartphone shipments to grow at double digit in CY 2016. The share of smartphones in the overall domestic mobile phone market was around 40% in CY2015 and given the current trend, smartphone is expected to overtake feature phone sales in 2016. In 2015, smartphone shipments grew 28.8% to 103.6 million units, making India one of the fastest-growing smartphone markets in the Asia-Pacific.

As the smartphone market in China begins to slow down, most vendors including Chinese players are now looking for avenues to leverage on India's growth potential. The online channel negates the need to set up a complex distribution network to reach target customers. Hence, it provides an easy medium for Chinese vendors to enter the Indian smartphone market. However, most of these vendors are also looking at expanding their offline presence to gain further share in the India market.

India's Smartphone Vendor's market share



Source: IDC

Moderate overall gearing and debt coverage indicators

SSK group's capital structure and debt coverage indicators remain moderate. The group's overall gearing remains at 2.37x as on March 31, 2015 as compared to 2.42x as on March 31, 2014. Given the high working capital intensity, there is dependency on external borrowing to fund its incremental working capital requirements. Its PBILDT/interest coverage ratio stood at 1.64x as on March 31, FY15 (2.04x as on 31 March, 2014), while Total Debt/GCA remained at 16.63x in FY15 as against 15.92x in FY14, mainly due to higher debt levels to fund the growth in scale of operations.

Competitive and trading nature of business leading to low profitability margins

The Mobile distribution business remains competitive with a low degree of product differentiation throughout the industry with most of the players supplying mobile of limited established brands. Generally, competition among distributors of the same brands is limited by vendors through geographic coverage rights. Nonetheless, competition from distributors of other vendors continues to remain. Furthermore, margins in the industry remain low as companies have to provide cost advantages and discounts to clients to achieve higher volumes. Also, lack of pricing power against its principal, Samsung further restricts the ability of the company to improve its margins. Thus, low profitability margin is a characteristic of Mobile distributors and profitability in these businesses are largely driven by volumes.

Albeit low, SSK group's margins have remained stable. However the company is expanding its business in the electrical fitting segment through establishment of its own brand "SYSKA LED" to improve its margins going forward.

Working capital intensive nature of operations

Working capital intensity is another inherent characteristic of the mobile distribution business. In general, the group maintains around 25-30 days of inventory and receivables are generally realized within the same time period. However the company's operating cycle of around 43 days is in line with other players in the industry. Due to high working capital intensity there is high dependency on external borrowing to fund its incremental working capital requirements. The liquidity profile is moderate with current ratio of 1.34x as on March 31, 2015, and 1.32x as on March 31, 2014, while the utilization of fund based bank limits was high at around 94.6% for the past 12 months ending December 2015. For SSKAPL on a standalone basis, utilization of fund-based bank limits was around 95.12% for the past 12 months ending December 2015.

Limited bargaining power with principal and high supplier concentration risk

Samsung contributes to around 90-95% in the total revenue of the company. This exposes the company to supplier concentration risk. The company has low bargaining power with the principle and may have to agree with revised terms on contract renewal.

Technology obsolescence risk

Technological obsolescence is an inherent risk in any technology related business and also applies to the mobile handsets distribution business. However, the company's vendors continue to provide significant support against technological

obsolescence. SSKAPL is compensated when a new model is launched and the existing model is to be sold at a discount. Nonetheless, SSKAPL continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of the company being unable to liquidate the inventory timely.

Abridged Financial Performance (Combined financials of SSKAPL, BBAPL, SSKRPL, SYSKA LLPL, Shree Sant Kripa Accessories Pvt Ltd and SSKIPL)*

(Rs. Cr)

For the period ended / as at March 31	2013	2014	2015
	(12m, Prov)	(12m, Prov)	(12m,Prov)
Working Results			
Total Operating income	5224.10	7843.21	7983.88
PBILDT	89.39	156.87	166.90
Interest	37.12	76.86	102.04
Depreciation	3.95	4.69	8.09
PBT	48.32	52.13	56.73
PAT (after deferred tax)	39.74	41.30	42.51
Gross Cash Accruals	43.77	45.98	49.91
Financial Position			
Tangible' Network	211.93	302.13	350.70
Total Debt	483.16	698.08	789.25
Key Ratios			
Profitability			
PBILDT/Total Op. income (%)	1.71	2.00	2.09
PAT (after deferred tax)/ Total income (%)	0.76	0.53	0.53
ROCE (%)	12.28	17.94	14.84
RONW (%)	18.75	16.07	13.02
Solvency			
Long Term Debt Equity ratio (times)	0.19	0.05	0.10
Overall gearing ratio(times)	2.30	2.42	2.37
Interest coverage(times)	2.41	2.04	1.64
Total debt/Gross cash accruals(years)	11.14	15.92	16.63
Liquidity			
Current ratio(times)	1.36	1.32	1.31
Quick ratio(times)	0.84	0.65	0.74
Turnover			
Average collection period (days)	30	21	25
Average inventory (days)	20	20	26
Average creditors (days)	7	5	7
Operating cycle (days)	43	35	43

* - Calculated excluding Interparty transactions

Financial Performance of SYSKA LED Lights Pvt Ltd (Standalone)

(Rs. Cr)

For the period ended / as at March 31,	2013	2014	2015
	(12m, A)	(12m, A)	(12m,A)
Working Results			
Total Operating income	0.06	79.49	241.52
PBILDT	0.01	8.32	12.39
Interest	0.01	5.46	7.50
Depreciation	0.00	0.04	0.44
PBT	0.00	2.84	4.41
PAT (after deferred tax)	0.00	1.91	3.30
Gross Cash Accruals	0.00	1.95	3.73
Financial Position			
Tangible' Networth	0.65	16.35	30.09
Total Debt	0.00	49.71	54.53
Key Ratios			
Profitability			
PBILDT/Total Op. income (%)	19.72	10.47	5.13
PAT (after deferred tax)/ Total income (%)	1.64	2.40	1.37
ROCE (%)	0.00	24.89	15.81
RONW (%)	0.00	22.46	14.23
Solvency			
Long Term Debt Equity ratio (times)	0.00	3.04	1.81
Overall gearing ratio(times)	0.00	3.04	1.81
Interest coverage(times)	1.21	1.52	1.65
Total debt/Gross cash accruals(years)	0.00	25.43	14.64
Liquidity			
Current ratio(times)	133.48	6.64	2.73
Quick ratio(times)	107.61	1.50	0.56
Turnover			
Average collection period (days)	0	33	25
Average inventory (days)	0	174	131
Average creditors (days)	0	24	39
Operating cycle (days)	0	183	117

Details of Rated Facilities

A-1 Details of Bank Facilities

Long-term facilities

1.A. Fund Based sanctioned limits

Sr. No.	Lender	Type of Facility	Amount (Rs. Crore)
1	State Bank Of India	Cash credit*	50.00
2	State Bank of Travancore	Working Capital	10.00
3	HDFC Bank Ltd	Working Capital	8.00
4	Union Bank of India	Working Capital	22.00
	TOTAL		90.00

* Includes sanctioned sublimit of Rs.25 crores

Total Long-term facilities (1.A.): Rs.90 crore

2 Short-term facilities

2.B. Non-Fund Based Limits

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Crore)
1	State Bank of Travancore	LC/BG*	20.00
2	HDFC Bank Ltd	LC/BG	12.00
3	Union Bank of India	LC/BG	20.00
	TOTAL		52.00

*LC=Letter of credit; BG=Bank guarantee

Total short-term facilities (2.B.): Rs 52.00 crore

Total Bank Facilities to be rated is Rs.142 crore

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(This follows our brief rationale for entity published on 18 April 2016)

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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