

Supertron Electronics Private Limited

November 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	320.00 (Enhanced from 310.00)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	246.00 (Enhanced from 196.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	566.00 (Rs. Five Hundred Sixty-Six Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Supertron Electronics Private Limited (SEPL) take into account improvement in the financial performance of the company during FY21 (refers to the period April 1 to March 31) and H1FY22 and consequent improvement in the debt protection metrics along with liquidity profile of the company. Total operating income of the company grew ~26% y-o-y in FY21 on the back of increased demand for Information Technology (IT) hardware products due to Work from Home (WFH) and Study at Home (SAH) practices induced post Covid 19 pandemic. The growth continued in H1FY22 and the performance is expected to further improve in FY22. Healthy demand also led to faster churning of inventory along with quicker realization of debtors which resulted in decline in working capital requirement and hence decline in finance cost. Moreover, capital structure and debt protection matrices of the company have also improved which is marked by improvement in the overall gearing and total debt/gross cash accruals in FY21.

The ratings continue to derive strength from the experienced promoter, long association with reputed principals, established market position in domestic IT distribution industry, widespread geographical distribution network with strong presence in Tier-II and Tier-III cities and making inroads in Tier-IV towns/cities with a well-diversified mix of product offerings and low inventory obsolescence risk.

The rating is however constrained by principal concentration risk, low profitability levels, forex fluctuation risk and intense competition in the IT hardware distribution business.

Key Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade

- Sustained improvement in the operating margins beyond 3%.
- Total debt to GCA of less than 3.0x on sustained basis.

Negative Factors – Factors that could lead to negative rating action/downgrade

- Moderation in the operating margins below 1.5% on a sustainable basis.
- Increase in operating cycle beyond 50 days.
- Total debt to GCA of more than 10.0x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter marked by long and established track record of operations

SEPL was incorporated in 1993 and has a long and established track record of trading operations of over two decades. The long track record of its operations has enabled the company to establish a strong distribution and marketing network across India, which has led to addition of new principals along with newer product profiles in its distribution portfolio. Currently, the company is looked after by Mr. V. K. Bhandari, who has more than two decades of operational experience and maintained long term relationship with their principals and customers.

Established relationships with reputed principals along with diversified product portfolio

The diversified network of the company and long experience of the promoters has facilitated SEPL to establish relationships with reputed brands and deal in more than 50 diverse IT product categories. SEPL has throughout maintained long term relationships with its suppliers including Dell, Seagate, Acer with which it has been associated for more than a decade.

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

Established market position & widespread geographical distribution with strong presence in Tier-II & Tier-III cities and making inroads in Tier-IV towns/cities

SEPL has a well-established position in the computer peripherals distribution business backed by the long-term association with suppliers and wide distribution network across the country. It has a strong distribution network comprising around 11,900 registered channel partners through 36 branches and 30 satellite spread across 950 towns/cities. Moreover, the company is consciously increasing its presence in the Tier-II and Tier-III cities through adding channel partners in such region thus allowing it to attain exclusive contracts from suppliers which has an emphasized focus in these markets. SEPL has also undertaken initiatives by opening satellite branches to cater the remote markets of the country and has also established a Value-Added Distributorship (VAD) division during FY19 to provide end to end services/bundled services to the consumers on a Pan-India basis (from providing hardware to installation/ setup) on behalf of principals like Cybernetyx, G&G, Braco, Pelco etc. where the company is earning better margins on such services. However, contribution to overall sales continued to remain on the lower side. The southern region remained the largest revenue contributor with revenue share of around 33% followed by northern region, western and eastern region with 30%, 24% and 13% share respectively during FY21.

Low inventory obsolesce/price risk

The electronics industry in India faces high price volatility risk as products are exposed to various factors including changing market demand and a volatile rupee. However, such risk are mitigated since SEPL have a price protection clause included in their contract with the principals, wherein the principal may either reimburse SEPL in cash or adjust the change in the form of a credit note which can be used for future purchases from the supplier. Further, in case of product which remains unsold by the resellers on account of defect or obsolescence, the same are directly returned to the principals by the resellers, thus reducing the liability of SEPL.

Improvement in financial performance and debt protection metrics during FY21 and H1FY22

In FY21, total operating income of the company witnessed sharp increase of around 26% over FY20 on the back of increase in demand Information Technology (IT) hardware namely laptop, monitor, PCs and other IT & IT-enabled products/services. This increase in demand is mainly due to change in the way of living, working and learning environment since onset of once in a century pandemic namely COVID19. Accordingly, PBILDT level and PAT have also increased to Rs.87.5 crore and Rs.52 crore in FY21 vis-à-vis Rs.70.8 crore and Rs.26.9 crore in FY20, respectively. Gross cash accruals (GCA) also remained comfortable and stood at Rs.53.7 crore as against negligible scheduled debt repayment obligations (i.e. Rs.0.33 crore) in FY21.

The overall gearing ratio improved to 1.4x as on March 31, 2021 from 2.0x as on March 31, 2020 due to decline in total debt attributable to the decline in working capital borrowings along with increase in net worth due to accretion of profits to reserve. Also, Total Debt/ GCA improved to 6.3 times as on March 31, 2021 from 13.5 times as on March 31, 2020 due to higher GCA levels.

During H1FY22, the company has earned PAT of Rs.33.8 crore on total operating income of Rs.2750 crore on the back of healthy demand for IT hardware and healthy demand trend is expected to remain continue in H2FY22 also.

Key Rating Weaknesses

Principal concentration risk albeit established position of principals in their respective segment

SEPL continues to derive majority of its revenue primarily from three principals namely Dell, Seagate and Acer (67% in FY21 vis-à-vis 68% in FY21). However, the company focuses on adding new products of established brands to its product portfolio to diversify revenue base on a year on year basis which mitigates concentration risk to an extent. Further, SEPL has also been gradually increasing its sales contribution from Lenovo brand (~4% in FY18 to ~13% in FY21). Nevertheless, established position of principals in their respective segment mitigate the concentration risk to some extent.

Low profitability margins and high level of competition in the industry

SEPL's profitability margins have continuously remained low, which is mainly attributed to trading nature of business operations combined with high level competition in the IT hardware trading industry with low entry barriers.

Foreign exchange risk although low, is present

Due to dependence on imports which formed around 24% of the total purchases (of IT products), the company is vulnerable to foreign currency risk. Nevertheless, this risk is mitigated by price protection offered by principals in the form of discounts/incentives and the partial hedging policy followed by the company.

Industry outlook: IT sector

The Indian traditional PC market (inclusive of desktops, notebooks, and workstations) continued to be robust as the shipments grew by 50.5% year-over-year (YoY) in 2Q21 (Apr-Jun), according to new data from the International Data Corporation ([IDC](#)). The second wave of COVID-19 further delayed the opening of schools and colleges, strengthening the demand for PCs for home learning. In 2Q21, the consumer segment grew 118.4% YoY, and 5.9% sequentially as vendors prepared the channel in anticipation of stronger demand. The commercial segment grew 13.8% YoY in 2Q21 as the enterprises, especially the IT and IT-enabled services companies, continued buying to manage the growing workforce in the

ongoing work from home scenario. Moreover, the demand from SMBs also supported the growth of the commercial segment as it grew 61.2% from the same time a year ago. Accordingly, the future prospects of the Indian IT services industry is well positioned to garner advantage of the opportunities that come in near future as technology will play a pivotal role in helping enterprises to adapt to the new normal in the medium term. Companies are expected to invest towards building operational resilience, analytics, automation, cloud and cyber security, etc.

Liquidity position: Adequate

Adequate liquidity is characterized by comfortable cushion in accruals (Rs.53.7 cr.) vis-à-vis repayment obligations (Rs.0.33 cr.) in FY21. Its fund-based bank limits are utilized in the range of 50% only during last twelve (12) months ended August, 2021. Further, the Operating cycle of the company also improved in FY21 mainly on account of better inventory management and efficient cash collection. The company has availed GECL of Rs.40 crore in FY21 and this will further provide comfort to the liquidity position of the company.

Going forward, liquidity position of the company is expected to remain adequate on account of healthy gross cash accruals and negligible scheduled debt repayment obligations in FY22 as repayment of GECL will start from FY23.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the Company

Supertron Electronics Private Limited (SEPL) promoted by Mr. V.K. Bhandari of Kolkata in 1993, is a national distributor of computer and associated peripherals of around 30 major global IT brands like Acer, Dell, Lenovo, Seagate, Samsung, Xerox, Wacom, LG, etc. SEPL's traded product portfolio is diversified with around 50 products which include Desktops/ TFT Monitors, Servers, Laptops, Netbooks, PC Components, Peripherals, Memory modules, printers, storage products, networking products, gaming and consumer electronic products. The company also has Cloudtail, Amazon and Flipkart as its channel partners along with players like Infinity Retail, Reliance Digital, Vijay Sales in organized retail store segment.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	3615.79	4558.93	2749.54
PBILDT	70.80	87.49	51.84
PAT	26.89	52.03	33.83
Overall gearing (times)	1.96	1.39	0.97
Interest coverage (times)	1.77	3.88	6.63

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	320.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	246.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	320.00	CARE A; Stable	-	1)CARE A-; Positive (30-Nov-20) 2)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (03-Jan-19)
2	Non-fund-based - ST-BG/LC	ST	246.00	CARE A1	-	1)CARE A2+ (30-Nov-20) 2)CARE A2+ (07-Oct-20)	1)CARE A2+ (04-Oct-19)	1)CARE A2+ (03-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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