

Supertron Electronics Private Limited

September 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	340.00 (Enhanced from 320.00)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	286.00 (Enhanced from 246.00)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	626.00 (₹ Six Hundred Twenty-Six Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Supertron Electronics Private Limited (SEPL) factors in the improvement in financial performance of the company during FY22 (refers to the period April 1 to March 31) marked by increase in total operating income (TOI) and substantial improvement in profitability margins and consequent improvement in the debt protection metrics. TOI of the company grew by around 23% y-o-y in FY22 on the back of sustained higher demand for Information Technology (IT) hardware products due to Work from Home (WFH) and Study at Home (SAH) practices induced post Covid19 pandemic.

The ratings also continue to derive strength from experienced promoters, long established 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, working capital intensive nature of operations, low profitability levels, forex fluctuation risk and intense competition in the IT hardware distribution business.

Outlook: Positive

The outlook has been revised from 'Stable' to 'Positive' in view of expected improvement in financial performance along with sustenance of PBILDT margins and improvement in capital structure and debt protection metrics from current levels. The outlook shall be revised to 'Stable' in case the company is unable to sustain its envisaged revenues and profitability or there is substantial debt taken impacting the leverage indicators.

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.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

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 a Value-Added Distributorship (VAD) division 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 various principals, and the company is earning better margins on such services. However, contribution of these services to the overall sales continued to remain on the lower side.

The southern region remained the largest revenue contributor with revenue share of around 35% followed by northern region, western and eastern region with 30%, 25% and 10% share respectively during FY22.

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 is 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 pricing 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 metrices during FY22

TOI of the company grew by around 23% y-o-y in FY22 on the back of sustained higher demand for Information Technology (IT) hardware products namely laptop, monitor, PCs and other IT & IT-enabled products/services. The sustained increase in demand is mainly due to change in the way of living, working and learning environment post COVID19. Healthy demand for products like graphic cards and other gaming products and Large Format Display (LFD) which commands higher margins along with better absorption of fixed overhead attributable to increase in scale of operation led to improvement in operating margins in FY22. Accordingly, on absolute level, PBILDT increased by 80% y-o-y in FY22 to around Rs.157 crore. Also, profit after tax (PAT) and gross cash accruals (GCA) nearly doubled in FY22 on the back of higher PBILDT level along with largely stable capital charges.

Capital structure of the company continued to remain satisfactory in FY22 which is marked by overall gearing ratio of 1.2x as on March 31, 2022 (P.Y.: 1.4x). Further, despite increase in total debt, debt protection matrices of the company witnessed improvement in FY22 on the back of higher GCA levels. Total debt/ GCA stood at 4.2 times as on March 31, 2022 vis-à-vis 6.3 times as on March 31, 2021.

During Q1FY23, the company has earned PAT of Rs.23 crore on total operating income of Rs.1381 crore.

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 (59% in FY22 vis-à-vis 67% 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 ~17% in FY22). Nevertheless, established position of principals in their respective segment mitigate the concentration risk to some extent.

Working capital intensive nature of operations

The company's working capital requirement is traditionally high because of stocking requirements, as inherent in the distribution business. It needs bank limits to finance the inventory holding period, thereby making the business working capital intensive. Accordingly, its capital structure remains moderate with a TOL/TNW of 3.4 times as on March 31, 2022. The operating cycle of the company continued to remain satisfactory at 27 days in FY22 (P.Y.: 25 days) and its fund-based bank limits are utilized in the range of 74% during last twelve (12) months ended July, 2022. Going forward, working capital requirement is expected to increase in anticipation of increase in inventory days post normalization of demand and increase in scale of operations. Consequently, the company's ability to maintain the current operating cycle and scaling up of operation with current capital structure would be key rating monitorable.

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 25% of the total purchases (of IT products), the company is vulnerable to foreign currency risk. Nevertheless, this risk is mitigated partially by hedging policy followed by the company and partially by price protection offered by principals in the form of discounts/incentives.

Industry outlook: IT sector

The Indian traditional PC market (inclusive of desktops, notebooks, and workstations) delivered another strong quarter (Apr-Jun 2022) shipping over 3.7 million units with a year-over-year (YoY) growth of 17.8%, according to new data from the International Data Corporation ([IDC](#)). The government segment was strong due to spill over orders from the previous quarter, but the other segments are slowing, with channel inventory increasing. While the notebook category continued to be the volume driver with 2.6 million units, its growth rate reduced to 7.3% YoY compared to over 30% YoY on average for the last three quarters. The desktop category, however, continued its strong run, shipping more than one million units for a second consecutive quarter.

Accordingly, the future prospects of the Indian IT services industry are 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.101 cr.) vis-à-vis scheduled repayment obligations (Rs.1.67 cr.) in FY22; supported by above unity current ratio and free cash and cash equivalents of around Rs. 26 crores (including Rs.8 crore of investment in the form of mutual fund) as on March 31, 2022. Its fund-based bank limits are utilized in the range of 74% during last twelve (12) months ended July, 2022.

Going forward, the liquidity position of the company is expected to remain adequate on account of healthy gross cash accruals which are expected to sufficiently cover the scheduled debt repayment obligations in 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23 (U/A)
Total operating income	4,558.93	5,587.45	1381.48
PBILDT	87.49	157.41	38.42
PAT	52.03	100.05	23.24
Overall gearing (times)	1.39	1.24	NA
Interest coverage (times)	3.88	7.00	5.43

A: Audited; P: Provisional; U/A: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	340.00	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	286.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	340.00	CARE A; Positive	-	1)CARE A; Stable (05-Nov-21)	1)CARE A-; Positive (30-Nov-20) 2)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (04-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	286.00	CARE A1	-	1)CARE A1 (05-Nov-21)	1)CARE A2+ (30-Nov-20) 2)CARE A2+ (07-Oct-20)	1)CARE A2+ (04-Oct-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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