Rashi Peripherals Private Limited

June 17, 2021

Rating

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	582.70 (Enhanced from 507.70)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	8.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**590.70 (Rs. Five Hundred Ninety Crore and Seventy Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from 'Stable' to 'Positive' factors in CARE's belief that the company will continue to register strong sales growth of 12% to 15% on the back of continued demand for its products led by favorable demand dynamics of the industry. CARE also believes that the company will continue to maintain PBILDT margins over ~3% which will translate in to improved gross cash accruals. CARE may revise the outlook to stable from positive if in case Rashi Peripherals Private Limited (Rashi) does not achieve scales and profitability as envisaged.

The reaffirmation of ratings assigned to the bank facilities of Rashi Peripherals Private Limited (Rashi), continue to derive strength from the experienced promoters coupled with established position in the IT product distribution industry of over 3 decades translating in to significant improvement in TOI coupled with growth in profit margin in FY21, long standing relationships with various established brands and channel partners, wide geographic reach and effective and prudent risk mitigation practices followed by the company with respect to foreign exchange, inventory and receivables management.

The ratings, however, are constrained by thin operating margins due to trading nature of business and highly competitive market conditions, working capital intensive nature of business and leveraged capital structure.

Rating Sensitivities

Positive Factors

- Total debt to GCA of less than 2.50x on sustained basis
- PBILDT/ Interest coverage more than 6 times on sustained basis

Negative Factors

- PBILDT margin falling below 1.50%.
- ROCE falling below 14%.
- Operating cycle more than 50 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters coupled with established position in the IT product distribution industry

Rashi promoted by Mr. Krishna Kumar Choudhary, B. Com, FCA and Mr. Suresh Pansari, B. Com, FCA, in 1989. Rashi's promoters are in to the business of almost 3 decades in the industry and have an established position in the Indian IT product distribution sector, being one of the largest distributors of IT products in India. The ownership is closely held by the promoters and their family members and Mr. Kapal S. Pansari, son of Mr. Suresh Pansari has also joined the business and is actively involved in the operations of the company. Rashi operates across five business verticals namely: components, peripherals, and personal-computing, mobile / smartphones and market verticals such as: retail, online and enterprise.

Significant improvement in TOI coupled with growth in profit margin in FY21
Rashi's TOI has grown substantially by about 50% Y-o-Y to Rs.5,867 crore during FY21 on account of increased IT hardware demand owing to adoption of work from home culture by majority of corporates due to Covid-19 pandemic. In line with increased sales majorly fuelled by 72% Y-o-Y rise in high margin PCD sales, Rashi's PBILDT margin and PAT margin increased by 97 bps. and 101 bps to 3.36% and 2.08%, respectively, during FY21. Increase in margin was on account of lower overhead cost consequent to improved sales, better realisation led by improved demand, higher early payment incentive, lower logistic costs coupled with improved collection efficiency.

Long standing relationships with a variety of established brands and channel partners
Rashi has successfully maintained strong vendor profile with significant vendor additions in the recent past. These vendors have monthly and quarterly targets to be met by Rashi. Further, in case of products becoming obsolete due to introduction of new upgraded products, the vendors extend full vendor support to the company. Rashi does not have exclusivity agreements with most of its brands, however, some agreements do exist with specific brands in certain geographies. The gross profit margin ranges between 4-5%.

In terms of product concentration, PCDs contributed around 55% of the total sales in FY21 (FY20: 48%). Although the enterprise and networking vertical contributed to a little less than Rs.350 crore to TOI during FY21, however, Y-o-Y percentage growth in these verticals stood at more than 100% during FY21.

Further, the company is working towards expansion of its portfolio in both mobile phone and IT segment, by venturing into new brands, this is further expected to improve sales going ahead. The company has recently added Samsung and LG to its bucket of vendors.

Wider geographical reach because of the main customers being major retail outlets and e-commerce players
Top 10 customers include Appario, Flipkart, Reliance Retail, Infiniti Retail Limited (Croma) and other retailers who are also listed as sellers on ecommerce platforms. Overall, the company has a pan-India network of around 51 branches and warehouses, and 9000+ channel partners. Also, Rashi has an employee base of around 1000, as on March 31, 2021. Consequently, long standing existence of the company into distribution of IT products along with significant chunk of sales coming from ecommerce players has given Rashi a wider geographical reach.

Effective and prudent risk mitigation practices followed by the company with respect to foreign exchange, inventory and receivables management
The electronics industry in India faces high price volatility risk as well as inventory obsolescence risk. However, such risk is mitigated since Rashi either gets reimbursement from principal 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 inventory risk of Rashi.

Around 40% of purchases of the company are imports, hence, the company faces risk from foreign exchange fluctuations. Rashi hedges any net foreign currency exposures arising from import of products, by entering into forward contracts. The forex losses incurred on finance costs decreased to nil in FY21 from Rs.1.65 crore in FY20. Also, Rashi has covered its receivables through credit insurance for sales to mitigate the risk of non-payment by the debtors.

Key Rating Weaknesses

Thin operating margins due to trading nature of business and highly competitive market conditions
Due to low value additive nature of the IT distribution business, the profitability of Rashi continues to remain thin. However, led by change in product mix coupled with higher early payment incentive, Rashi's PBILDT margin improved to 3.36% during FY21, as compared to 2.39% in FY20.

Working capital intensive business; albeit moderation was witnessed in utilisation of working capital facility due to improved collection efficiency
Rashi buys IT products from manufacturers on CAD basis and sells to Trade Channel on credit terms. It needs bank limits to finance the inventory holding period, and the collection period to buyers, thereby making the business working capital intensive.

Some of the key initiatives taken by company to improve collections efficiency include increased frequency of its sales meeting, implementation of SAP etc., which provides an access to real-time data thus helping it improve collection efficiency. The average utilization of working capital limits improved to 71% for the last 12 months ending May 2021 (vs 81% during 12 months ending July 2020). Further, Rashi was able to avail higher early payment incentive of around Rs.52 crore from vendors during FY21, as compared to Rs.27 crore during FY20 indicating improved collection efficiency. During the lock down, average utilization of its working capital facilities had remained on the declining trend, while the sales continued to remain on improving trend indicating improved collection efficiency. The company has also availed GECL term loan facility amounting to around Rs.63.20 crore, during March and April-2021, with one-year repayment moratorium and thereafter repayable in 48 equal monthly instalments starting April 01, 2022. The same is majorly used to finance Rashi's working capital requirements.

Leveraged capital structure

Overall gearing ratio has stood stable Y-o-Y at 1.36x and total outside liabilities to net worth has improved to 3.12x (vs 3.36x as on March 31, 2020) as on March 31, 2021, on account of higher accretion to reserves. Moreover, the interest coverage ratio improved to 6.59x during FY21 (vs PY: 2.54x) on account of substantial increase in PBILDT and decreased interest expense Y-o-Y, owing to better collections and decrease interest rates.

Impact of coronavirus and industry prospects

Worldwide IT spending was projected to total $3.40 trillion in 2020, a decline of 8% over FY19. The coronavirus pandemic and effects of the global economic recession are causing CIOs to prioritize spending on technology and services that are deemed "mission-critical" over initiatives aimed at growth or transformation. As the COVID-19 pandemic continues to spur remote working, sub segments such as public cloud services will be a bright spot in the forecast, growing 19% in 2020. Cloud-based telephony and messaging and cloud-based conferencing will also see high levels of spending growing 8.9% and 24.3%, respectively. In 2020, some longer-term cloud-based transformational projects were put on hiatus, but the overall cloud spending levels being projected for 2023 and 2024, will now be showing up as early as 2022.

Liquidity Analysis: Adequate

Rashi had an unencumbered cash and bank balance of Rs.10.44 crore as on March 31, 2021 and Rs.0.36 crore as on May 31, 2021. The average working capital limits have been utilized to the extent of 71% in the past 12 months ending May 2021. GCA during FY21 was Rs.125 crore (PY: Rs.44 crore) During FY21, there was a negative cash flow from operation of Rs.146 crore (vs PY: Rs. 53 crore). Being a trading concern, the company has no major capital expenditures expected in the future. Rashi has no scheduled repayment of term loan in FY22, however, term loan repayment pertaining to GECL will amount to around Rs.16 crore during FY23.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's policy: Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Wholesale Trading

About the Company

Rashi Peripherals Private Limited (Rashi) was incorporated in 1989, by Mr. Krishna Choudhary (B. Com, FCA) and Mr. Suresh Pansari (B. Com FCA). The promoters have an experience of 3 decades in the Information Technology Distribution business. Rashi is one of the 5 largest IT Distributors in India engaged in the business of Information Technology Product Distribution and after sales services of information technology products. Rashi has partnered with over 9000+ dealers and retailers in over 750 towns and cities. Major vendors of Rashi include many world-renowned names in the IT industry, like San Disk, Lenovo, HP, Dell, Asus, etc. The company does not have any exclusivity agreements with any brands.

Further, Rashi owns 20% stake in a company Rashi Peripherals Pte Singapore, which is in the same line of business but has low turnover of around 4-5 million dollars.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	3,924	5,867
PBILDT	94	197
PAT	42	122
Overall gearing (times)	1.36	1.36
Interest coverage (times)	2.54	6.59

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	582.70	CARE A-; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the 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-Long Term	LT	582.70	CARE A-; Positive	-	1)CARE A-; Stable (09-Sep-20) 2)CARE A-; Negative (06-Apr-20)	1)CARE A-; Stable (05-Apr-19)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A2	-	1)CARE A2 (09-Sep-20) 2)CARE A2 (06-Apr-20)	1)CARE A2 (05-Apr-19)	-

Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

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

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