

Supertron Electronics Private Limited

August 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	26.67	CARE A; Positive	Assigned
Long-term bank facilities	380.00 (Enhanced from 340.00)	CARE A; Positive	Reaffirmed
Short-term bank facilities	336.00 (Enhanced from 286.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Supertron Electronics Private Limited (SEPL) factors in the sustained level of operations and margins above the pre-COVID 19 levels along with a reduction in the concentration of the principal profile. The ratings also continue to derive strength from the long experience of the promoters, the long established association with reputed principals, the established market position in the domestic Information Technology (IT) distribution industry, the satisfactory capital structure and debt protection metrics, the widespread geographical distribution network with a strong presence in Tier-II and Tier-III cities and making inroads in Tier-IV towns and cities, with a well-diversified mix of product offerings and low inventory obsolesce risk. The rating action also factors in the expected improvement in the scale of operations in FY24 given the substantial orders in hand.

The ratings are, however, constrained by the principal concentration risk, the working capital-intensive nature of operations, the low profitability margins, forex fluctuation risk, and the intense competition in the IT hardware distribution business.

Outlook: Positive

The continuation of the 'Positive' outlook on the long-term ratings of the company factors in the expected sustenance of the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin coupled with an increase in the scale of operations and the consequent improvement in the capital structure and debt protection metrics from the current levels. The outlook will 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

- Sustained improvement in the operating margins (PBILDT) beyond 3%.
- Total debt (TD) to gross cash accruals (GCA) of less than 3.0x on a sustained basis.

Negative factors

- Moderation in the operating margins below 1.5% on a sustained basis.
- Increase in the operating cycle beyond 50 days on sustained basis.
- TD to GCA of more than 8.0x on a 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 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 the addition of new principals along with newer product profiles in its distribution portfolio. Currently, the company is looked after by VK Bhandari, who has more than two decades of operational experience and has maintained long-term relationships with its 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, and Acer, with whom it has been associated for more than a decade. This apart, the company has recently associated with Lenovo and Samsung, which diversified the principal concentration risk to a certain extent and further diversified the product portfolio. Sufficient diversification in the product and principal profile will help the company sustain its financial performance going ahead.

Established market position and widespread geographical distribution

SEPL has a well-established position in the computer peripherals distribution business, backed by the long-term association with suppliers and the wide distribution network across the country. Moreover, the company is consciously increasing its presence in Tier-II and Tier-III cities through adding channel partners in such regions, thus allowing it to attain exclusive contracts from suppliers with an emphasised focus on these markets. SEPL has also undertaken initiatives by opening satellite branches to cater to the remote markets of the country and has a Value-Added Distributorship (VAD) division to provide end-to-end services and bundled services to the customers on a pan-India basis (from providing hardware to installation and setup), on behalf of various principals, and the company is earning higher margins on such services.

The Southern region remained the largest revenue contributor with a revenue share of around 35%, followed by the Northern, Western and Eastern regions with 29%, 25% and 11% shares, respectively, during FY23.

Low inventories obsolesce/price risk

The electronics industry in India faces high price volatility risk as the products are exposed to various factors including the changing market demand and a volatile Rupee. However, such a risk is mitigated since SEPL has a price protection clause included in its contracts 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. Furthermore, in the case of a product that remains unsold by the resellers on account of defect or obsolescence, the same is directly returned to the principals by the resellers, thus reducing the liability of SEPL.

Stable financial performance in FY23

The scale of operations of the company remained steady in FY23 and continued to remain significantly above the pre-COVID-19 levels and stood at ₹5,150 crore (PY: ₹5,588 crore). The slight moderation in the total operating income (TOI) of the company was attributable to the decline in the market share of one of the key principals, ie,, Dell, owing to the change in the marketing strategy of the brand for its products and the fading of the COVID-19-induced spike in demand and the back-to-normal purchasing levels. Nevertheless, the decline was partly made good from the increase in the sale of products from other principals, namely, Samsung, Seagate, and Lenovo, which also helped the company to reduce the principal concentration risk to a certain extent.

In Q1FY24, the company has earned a TOI of ₹1,316 crore and the TOI is expected to increase in FY24 over FY23, backed by substantial orders in hand.

Despite the moderation in the TOI in FY23, the PBILDT margin continued to remain healthy at around 2.80% on the back of an increase in revenue from value-added products, which command higher margins and the benefits of economies of scale, which results in better absorption of fixed overheads. Accordingly, the profit-after-tax (PAT) and GCA continued to remain healthy and stood at ₹88.05 crore and ₹89.35 crore as on March 31, 2023, respectively.

Going forward, the PBILDT margin is expected to sustain at the current level in the near term, largely attributable to the envisaged increase in revenue from value-added products, which command higher operating margins.

Satisfactory capital structure and debt protection metrics

Although the TD levels of the company increased in FY23 over FY22 on account of the higher utilisation of working capital limits, the capital structure and debt protection metrics remained satisfactory. The utilisation of the working capital limits increased owing to the normalisation of a supply-demand mismatch post the COVID-19-induced spike in demand.

The overall gearing and total outside liabilities (TOL)/tangible net worth (TNW) of the company stood at 1.28x (PY: 1.35x) and 2.75x (PY: 3.38x) as on March 31, 2023, respectively, which improved mainly due to an increase in the net worth due to the accretion of profits to reserve. Also, the TD/GCA continued to remain satisfactory at 5.08x as on March 31, 2023 (PY: 4.45x).

Going forward, despite the higher debt level, the capital structure is expected to remain satisfactory with an expected increase in the net worth through the accretion of profits to reserves.

Key rating weaknesses

Principal concentration risk, albeit established position of principals in their respective segments

SEPL continues to derive the majority of its revenue primarily from five principals, namely, Dell, Lenovo, Acer, Samsung, and Seagate (78% in FY23 vis-à-vis 82% in FY22). However, the company focuses on adding new products of established brands to its product portfolio to diversify the revenue base on a year-on-year basis, which mitigates the concentration risk to an extent. Furthermore, SEPL has also been gradually increasing its sales contribution from brands (around 14% in FY21 to around 22% in FY23). Nevertheless, the established position of principals in their respective segments mitigates 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. As envisaged, the operating cycle days increased to 42 days in FY23 (PY: 23 days), mainly on account of an increase in inventory days attributable to the normalisation of demand of IT and IT products post fading of the COVID-19-induced spike in demand along with a moderation in demand for the products of Dell. Accordingly, the utilisation of its fund-based bank limits also increased to around 83% during the last 12 months ended June 30, 2023.

Going forward, the working capital requirement is expected to remain high in anticipation of the increase in the scale of operations and inventory stocking requirements. The company's ability to maintain the current operating cycle and the current capital structure while scaling up its operations will 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 the trading nature of business operations combined with the high competition level in the IT hardware trading industry with low entry barriers. The profitability margins are expected to remain in line with FY23 over the near term to medium term.

Foreign exchange risk, although low, is present

Due to the dependence on imports, which formed around 25-26% of the total purchases (of IT products), the company is vulnerable to foreign currency risk. Nevertheless, this risk is mitigated partially by the hedging policy followed by the company and partially by the price protection offered by principals in the form of discounts and incentives.

Industry outlook: IT sector

In Q1CY23, while the demand for desktops was positive, the notebook category witnessed another weak quarter as it declined by 40.8% y-o-y. The consumer segment declined by 36.1% y-o-y, primarily due to the slowing demand and the low market sentiment, and the commercial segment declined by 25.1% y-o-y due to the reduced or delayed procurement by enterprises and small and medium enterprises (SMEs). Government and education were the only segments seeing positive traction in Q1CY23. The procurement from government bodies propelled the segment to grow by 25.2% y-o-y, while the fulfilment of the Gujarat education order helped the education segment grow by 65.6% y-o-y. The online channel struggled for the second consecutive quarter, declining by 42.4% y-o-y in Q1CY23. Channel partners across tiers for almost all vendors have been carrying heavy inventory for the last two quarters. Hence, shipments in the consumer segment decreased significantly in Q1CY23, as they focused on clearing off aging inventory. The consumer market is expected to gradually recover from June-July with the back-to-college demand and followed by aggressive online sales expected during the festive months in Q3CY23 and Q4CY23 (Source: [IDC.com](https://www.idc.com)).

Liquidity: Adequate

The adequate liquidity position is characterised by the comfortable cushion in accruals (₹89 crore) vis-à-vis repayment obligations (₹10 crore) in FY23, supported by a moderate cash and bank balance of ₹15.62 crore as on March 31, 2023. The company's fund-based bank limits were utilised (month end) in the range of 83% during the last 12 months ended June 30, 2023. Furthermore, the company has enhanced its working capital limits by ₹90 crore during the previous year, which will be adequate to meet the working capital requirements to support the increase in the scale of operations in the near to medium term.

Going forward, the liquidity position of the company is expected to remain adequate on account of the healthy GCA, which are expected to sufficiently cover the scheduled debt repayment obligations in FY24.

Analytical approach: Standalone**Applicable criteria**

[Financial Ratios – Nonfinancial Sector](#)

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

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

SEPL, promoted by VK 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 Cloudbtail, Amazon, and Flipkart as its channel partners, along with players like Infinity Retail, Reliance Digital, Vijay Sales in the organised retail store segment.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)	Q1FY24 (UA)
Total operating income	5,588.60	5,198.94	1316.0
PBILDT	156.69	145.48	NA
PAT	103.38	88.05	NA
Overall gearing (times)	1.35	1.28	NA
Interest coverage (times)	6.97	4.07	NA

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	380.00	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	336.00	CARE A1
Term Loan-Long Term	-	-	-	March 2027	26.67	CARE A; Positive

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	380.00	CARE A; Positive	-	1)CARE A; Positive (12-Sep-22)	1)CARE A; Stable (05-Nov-21)	1)CARE A-; Positive (30-Nov-20) 2)CARE A-; Stable (07-Oct-20)
2	Non-fund-based - ST-BG/LC	ST	336.00	CARE A1	-	1)CARE A1 (12-Sep-22)	1)CARE A1 (05-Nov-21)	1)CARE A2+ (30-Nov-20) 2)CARE A2+ (07-Oct-20)
3	Term Loan-Long Term	LT	26.67	CARE A; Positive				

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Note on the 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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