Sangeetha Mobiles Private Limited

October 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	165.00	CARE A-; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sangeetha Mobiles Private Limited (Sangeetha Mobiles) factor in the long operational track record of more than two decades in mobile retail operations and strong brand recall for its stores. Sangeetha Mobiles' scale of operations has improved on the back of increase in the footfall post COVID-19. The growth is expected to be supported by company's plan to enter into new geographies like Maharashtra and Orissa, thereby reducing the geographical-concentration risk too. The company operates in the asset light business model and has prudently managed working capital requirement with lower dependency on borrowings. It has limited inventory obsolescence risk which helps it to maintain the margins. However, Sangeetha Mobiles had faced moderation in the profitability margins due to reduction in gross margins by the major brands during FY23 and in Q1FY24 along with its limited pricing flexibility and its presence in the highly fragmented and competitive mobile retail industry. Furthermore, as guided by the management, it has no plans to avail any term debt in the near future with expansions planned to be funded out of internal accruals. In order to improve the operational efficiency, Sangeetha Mobiles has established a subsidiary, viz., Wham for operation/expansion of its existing stores in the states of Andhra Pradesh and Telangana under the brand name of Sangeetha. These ratings are partially offset by geographical concentration risk and highly competitive landscape of mobile retailing business with intense competition from e-commerce segments.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operation above ₹4,000 cr with ROCE above 18%.
- TOL/TNW below 2.00x, Total debt to PBILDT (without Ind AS 116 Impact) <1x with ICR> 4x

Negative factors

- Decline in scale of operation below ₹2,000 cr with ROCE below 14%
- Any debt-funded capex resulting total debt to PBILDT (without Ind AS 116 Impact) above 2.00x and TOL/TNW(without Ind AS 116 Impact) above 3.50x.

Analytical approach: Consolidated

Consolidated financial and business profile of Sangeetha Mobiles along with its wholly owned subsidiaries viz. Wham Infocom Private Limited and Anu Distributors Private Limited is considered due to strong operational, financial and managerial linkages between them.

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that Sangeetha Mobiles will maintain satisfactory credit and business profile backed by strong market presence and brand name along with expectation of growing demand for mobile phones.

Detailed description of the key rating drivers:

Key strengths

Leading mobile retailer in South India with established brand presence

Established in year 2008, Sangeetha Mobiles is one of the leading mobile retailer in South India having significant presence in the states of Andhra Pradesh, Telangana (which are being operated under Wham, a 99% subsidiary of Sangeetha Mobiles), Karnataka, Tamil Nadu and Goa. The promoters L Narayana Reddy has more than four decades of experience and L Subhash Chandra Reddy MD of the company has around more than two decades of experience. The promoters are supported by professional CEO and CFO and Directors looking after various functions.

Operating around 731 stores spread across the states as on March 31, 2023, the company deals with all leading mobile handset manufacturers such as Apple, Samsung, Xiaomi, Sony, Vivo, Oppo, RealMe, Oneplus, Nokia, LG, HTC, Gionee and Lava among others through its retail network of 731 stores across South India.

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

Growing scale of operations with satisfactory recovery post impact of COVID-19
The scale of operations of the company has grown with a CAGR of 7.51% over the past five years. Retail operations were impacted in FY21 and in early FY22 due to lockdowns and restrictions imposed amid COVID-19. During FY23, income improved by around 27% and stood at ₹2268.39 cr when compared to ₹1,789.36 cr in FY22. CARE Ratings expects that the company would grow at CAGR of 15-18% over the medium term led by its store expansions as well as its strong brand recall.

Satisfactory capital structure
The company, on consolidated level, operates at comfortable capital structure with majority of the debt in form of lease liability and working capital borrowing and unsecured loans from the promoters. The adjusted total outside liabilities (TOL)/tangible net worth (TNW) (adjusted for lease liabilities) stood comfortable at 0.94x as on March 31, 2023 (Prov.) when compared with 0.96x as on March 31, 2022. The company re-invests around ₹20-30 crore of cash accruals generated in opening the new stores and rest is utilised for the working capital management of the company which has resulted in lower utilisation of working capital borrowings to fund the inventory. While the company has expansion plans in place, it operates on asset light model with all stores being operated on lease basis. CARE Ratings believes that the capital structure would remain satisfactory over the medium term on back of prudence management of working capital utilisation by the company.

Limited inventory obsolescence risk
Mobiles and mobile accessories are generally prone towards the risk of technology obsolescence and falling prices post introduction of new model, or outdating of the existing model of the brand due to which the company is prone to inventory obsolescence risk. However, under the present arrangement with the mobile brands, it will support to liquidate such stock by way of discount, incentives and compensation through promotional activities helping Sangeetha Mobiles to limit the risk of technology obsolescence impacting its margin. Furthermore, the company generally maintains around 45 days of inventory for the smooth flow of the operations at store level. However, the company stocks up higher inventory during the month of May on account of anniversary sales of Sangeetha Mobiles and during the festive months in order to carter the customer demand which would be primarily funded out of the working capital limits.

Key weaknesses

Limitation on price flexibility
Due to its fragmented nature of industry in both offline and online market from the established players in the industry, company faces stiff competition. Moreover, Sangeetha Mobiles has limited bargaining power with brands that fix the gross margins. During FY23, brands reduced the margins for retailers, thereby moderating Sangeetha Mobiles' margins as well. As such, there is no differentiation in gross margins offered by original equipment manufacturers (OEMs) between the offline retailers and e-commerce companies. CARE Ratings notes that with a strong and established brand recall and presence in south India along with region-focused marketing techniques has helped Sangeetha Mobiles to maintain its existing market share, reflected through its sustainable improvement in the scale of operations with largely stable profitability margins over the years despite having limited pricing flexibility.

Exposed to geographical concentration risk
Sangeetha Mobiles is majorly concentrated on the retailing of the mobiles which contribute around 90-95% of the total sales of the company. Moreover, in terms of stores the company's majority of the stores are in the state of Karnataka with around 296 stores contributing around 40% of the total stores of the company.

Liquidity: Adequate

Sangeetha Mobiles' liquidity position is marked by healthy demand for smartphones and mobile accessories in the Indian market along its significant market share in the South Indian states leading to healthy cash accruals against nil term loan repayment obligations. The average maximum fund-based, and non-fund based working capital utilisation stood at around 31.40% during the 12 months ended September 30, 2023 majorly to fund its working capital requirements. Furthermore, the company has consolidated cash and equivalents of ₹36.83 cr as on March 31, 2023.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Retailing	Speciality retail

Sangeetha Mobiles was established in the year 1974 as the multi brand retail outlet and in 2008 it was converted into Private limited company. Sangeetha is engaged into retailing of mobile phones and related accessories and is one of the leading multi-brands mobile retailers in South India having presence in the state of Karnataka, Tamil Nadu, Goa, Andhra Pradesh and Telangana. It deals with all leading mobile handset manufacturers such as Apple, Samsung, Xiaomi, Sony, Vivo, Oppo, RealMe, Oneplus, Nokia, LG, HTC, Gionee and Lava among others through its retail network of 731 stores (on consolidated basis) across South India. The company is promoted by L Subhash Chandra who is also the Managing Director of the company. He is supported by experienced management team consisting of Rajesh Babu (CEO), Sathish Kumar (CFO) and Anil Prabhas (Director Sales) among others.

Brief Financials (₹ crore)	March 31, 2022(A)	March 31, 2023 (UA)	June 30, 2023 (UA)
Total operating income	1,789.36	2,268.39	688.59
PBILDT	105.39	121.40	14.26
PAT	32.44	38.63	10.24
Overall gearing (times)	1.83	1.31	NA
Interest coverage (times)	3.15	2.93	17.60

A: Audited UA: Unaudited; NA: Not available

Note: A) March 31, 2022 and March 31, 2023 are IndAS financials while Q1FY24 are on IGAAP basis. B) 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

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: Annexure-4

Lender details: Annexure-5

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	165.00	CARE A-; Stable / CARE A2+

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	165.00	CARE A-; Stable / CARE A2+				

*Long term/Short term.

Annexure-3: Detailed explanation of 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	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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About us:

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