Eastern Logica Infoway Limited

March 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	87.20 (Enhanced from 56.78)	CARE BBB; Positive	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Eastern Logica Infoway Limited (ELIL) takes into account the increase in the scale of operation during FY23 (refers to the period April 1 to March 31) marked by increase in total operating income (TOI) coupled with improvement in operating margins. The rating action also takes into account the addition of new revenue stream namely exports of mobile phones and opening of new retail stores leading to business and geographical diversification over the medium term and thereby expected to improve the overall business risk of the company.
The rating also continues to draw strength from the long experience of the promoters, diversified product portfolio consisting of all major brands, wide distribution network with strategically located retail outlets and favourable pricing dynamics resulting in low inventory/obsolesce risk.

The rating, however, is constrained by moderate capital structure and debt protection metrics, low profitability margins due to trading nature of operations, working capital intensive nature of operations and regional concentration of sales with intense competition in the fragmented market. The ratings also take note of largely debt funded increase in scale of operation and consequent increase in debt requirements leading to negative cash flow from operations in the ensuing years.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The ability of the company to increase its scale of operations coupled with improvement in operating margin beyond 1.75% on a sustained basis.
- Total debt to GCA of less than 9.0x on sustained basis.

Negative factors

- Moderation in the scale of operation below Rs.400 crore and operating margins below 1% on a sustained basis.
- Moderation in TOL/TNW over 4.0x on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The outlook has been continued at 'Positive' in view of anticipated sustenance in growth momentum in scale of operation, improvement in liquidity position and steady debt levels. The outlook shall be revised to 'Stable' in case the company is unable to sustain its envisaged revenues and profitability or there is moderation in debt protection metrices from envisaged level.

Detailed description of the key rating drivers

Key strengths

Improvement in financial performance in FY23 and H1FY24

The TOI of the company improved by 14% year on year in FY23 to Rs.705 crore mainly on due to increase in volume sale of mobile phones coupled with increase in average unit selling prices of mobile and laptops in FY23 over FY22 attributable to premiumization trend as customers are preferring high end IT & IT products due to perceived high value addition and brand loyalty. Nonetheless, sales volume of laptop witnessed moderation in FY23 over FY22 mainly due to low replacement demand and fading of covid induced new demand for laptops.

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

Also, profit before interest, leases, depreciation, and taxes (PBILDT) margins improved by 29 bps in FY23 attributable to change in sales mix as mobile segment has slightly better margins than laptops and increase scale of operations resulted in economies of scale benefits.

Furthermore, during H1FY24, growth momentum sustained, and the company has earned TOI of around Rs.508 crore against Rs.705 crore in FY23 full year. This growth is mainly driven by addition of new revenue segment i.e., export of mobile and increase in sales from retail stores as the company has added new stores during H1FY24. Thus, it is expected that the company will maintain its growth momentum in near to medium term.

Well diversified mix of products and established relationship with reputed principals
ELIL has a well-diversified product profile with a product base of over 40 reputed brands. The product portfolio includes laptops, mobile phones, monitors, PC hardware components, computer peripherals like printers, scanners, pen drives, software, computer accessories and cameras. The large number of products and availability of the products from all major brands (like HP, Redmi, Dell, Acer, Apple, Sony, Lenovo, Samsung, Vivo, Oppo etc.) has assisted the company in increasing its customer base and reduces the principal concentration risk through low dependence on a particular product/brand. Sale of mobiles constituted about 60% of the total sales of the company in FY23 (PY: 52%) followed by sale of laptops about 37% of total sales of the company in FY23 (PY: 44%).

Multiple stores in strategic location albeit regional concentration risk
ELIL has total sixteen retail outlets, of which eleven are located in and around central Kolkata, in an area which is the hub of IT hardware stores, and five outlets in NCR-Delhi. The company has a wide distributorship network (with more than 1200 retailers) for trading these products and also sells the products online through its own website and through tie-ups with other e-commerce giants.

Favourable pricing dynamics resulting in low inventory/obsolesce risk
ELIL sources inventory from various principals at a particular price and when sold to distributors, they sell it at a margin as specified by such principals. Furthermore, higher margins are possible at ELIL's own retail stores. In case of price drops, ELIL also has to drop the price and is compensated for the same by the dealers.

Experienced promoters and long track record of the company
ELIL commenced operations in 1995 and accordingly has a long track record of operations of more than two decades. Over the years, it has established itself as prominent trader in the IT hardware industry. Mr. Gaurav Goel, the promoter of the company has rich experience of over two decades in trading of IT products and has been instrumental behind the growth of the company.

Key weaknesses

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 along with dealer credits leading to high receivables. It needs bank limits to finance the inventory and receivables period, thereby making the business working capital intensive. The cash flow from operations of the company has been at negative Rs.14 crores in FY23 (P.Y. negative Rs.9 crore). The operating cycle of the company continued to remain moderate at 44 days in FY23 (P.Y.: 41 days) and consequently the utilisation of fund-based bank limits remained high at around 84% during last twelve (12) months ended January 2024. Going forward, working capital requirements are expected to increase due to sharp increase in scale of operations and resultant negative cash flow from operations. Consequently, the company's ability to maintain the current operating cycle and current capital structure while achieving envisaged scale of operations would be key rating monitorable, going forward.

Moderate capital structure and debt protection metrics
The capital structure of the company continued to remain moderate albeit improvement in FY23 over FY22 marked by overall gearing of 1.20x as on March 31, 2023 (P.Y.: 1.72x). The improvement was mainly attributable to increase in networth base post issue of IPO in January 2023. Nonetheless, total debt levels increased as utilization of working capital limits increased to support the enhanced scale of operation in FY23.

Also, debt protection metrices improved but remained weak in FY23 marked by TD/GCA ratio of 16.89 times as on March 31, 2023, from 22.60 times as on March 31, 2022.
The capital structure and debt protection metrics are expected to remain pressured in near to medium term, given debt funded improvement in scale of operations.

Low operating margin due to trading nature of operations
ELIL's profitability margins have continuously remained low, and range bound, 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.

Highly competitive market with regional concentration
ELIL is exposed to intense competition due to the large number of players operating in the business and the fragmented nature of the industry. Furthermore, sales are primarily skewed in the northern region and eastern region (Kolkata, West Bengal) which remains the two largest revenue contributors with revenue share of 49.9% and 47.6% followed by southern and western regions having revenue share of 1.9% and 2.0% respectively in FY23. However, with the company entering in business of export of mobile phones, the regional concentration risk is expected to moderate to a certain level.

Liquidity: Adequate

The company has adequate liquidity characterized by sufficient cushion in GCA of Rs.3.78 crore vis-à-vis scheduled debt repayment obligations in FY23; supported by above unity current ratio. Its fund-based bank limits are utilized in the range of 84% during last twelve (12) months ended January 2024. This apart, working capital limits have been increased from Rs.40 crore to Rs.75 crore in July 2023 which added cushion to the liquidity position of the company.

Going forward, liquidity position of the company is expected to remain adequate driven by increase in gross cash accruals and higher working capital limits.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non-financial Sector
Wholesale Trading

About the company and industry

Macro Economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information Technology	IT - Hardware	Computers Hardware & Equipments

ELIL, incorporated as Eastern Infoway Ltd in July 1995, was promoted by Mr. Gaurav Goel. ELIL is a Kolkata based distributor, dealer and re-seller of laptops, desktops, mobile phones, hardware and computer peripherals. It trades these products online and through its wide distributorship network and seven retails outlets in Kolkata and one in Delhi. Currently, the day-to-day operations of the company are looked after by Mr. Goel along with a team of experienced staffs.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	617.51	704.92	508.47
PBILDT	7.62	10.76	7.77
PAT	2.51	3.51	2.59
Overall gearing (times)	1.72	1.20	1.66
Interest coverage (times)	1.58	1.74	1.87

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: 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	-	-	-	-	83.00	CARE BBB; Positive
Fund-based - LT-Term Loan	-	-	-	November, 2026	4.20	CARE BBB; 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*	83.00	CARE BBB; Positive	-	1)CARE BBB; Positive (31-Jan-23)	1)CARE BBB; Stable (31-Dec-21)	1)CARE BBB; Stable (22-Feb-21)
2	Fund-based - LT-Term Loan	LT*	4.20	CARE BBB; Positive	-	1)CARE BBB; Positive (31-Jan-23)	1)CARE BBB; Stable (31-Dec-21)	-

*Long 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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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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