Vardhman Electronics Private Limited

May 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.28	CARE BB+; Stable	Assigned
Short Term Bank Facilities	39.30	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Vardhman Electronics Private Limited (VEPL) derives strength from the experienced promoters, established brand name and long track record in consumer electronic retail industry, growing scale of operations and diversified product portfolio. The above ratings are constrained by stiff competition from online and offline channels in consumer electronic retail industry, leveraged capital structure and moderate debt coverage indicators, High working capital requirement and inventory obsolescence risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the total operating income beyond Rs.800 cr
- Improvement in PBILDT margins to above 3% on sustained basis
- Improvement in gearing below 1.50x

Negative factors

- Decline in the total operating income beyond Rs.500cr with PBILDT margin below 2.00%
- Increase in working capital cycle beyond 40 days

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that the entity is likely to benefit from its established track record and sustain the operating performance with extensive experience of the promoters in this business and established brand name in consumer electronic retail industry.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters:

Vardhman Electronics was incorporated in 2005 as proprietorship firm and in FY20, it was converted from proprietorship firm to Private Limited company. VEPL was established by Mr. Tilak Raj Jain and Mrs. Dolly Jain. Further the company is family managed business with the operation being managed by next generation of Mr. Tilak Raj Jain including Mr. Manoj Jain and Mr. Ayush Jain. The long-standing presence in the industry has enabled the company to establish a healthy relationship with their customers. The company has experienced team of professionals for managing sales and inventory.

Established brand in electronics retail industry:

Commencing its operation in October 2005, VEPL is the one of the growing electronic appliance retailers in the country operating multi-brand electronic stores under the brand name "Vardhman Electronics". VEPL is an established brand having its key presence in Delhi, Haryana, Maharashtra, Jharkhand, Telangana, West Bangal and Uttar Pradesh. VISPL has 65+ stores as on March 31, 2024 out of which half are on franchise model and remaining are own stores. VSIPL derives its major share of revenue i.e., more than 85% in FY23 from Delhi.

[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 thin profitability margins:
The operating performance of the company as exhibited by the total operating income has improved by 13% from Rs.655.5 crores in FY23 to Rs.737.3crore in FY24(prov.). Gross cash accruals of the company also improved in FY24 to Rs.5.21cr as compared to Rs.2.93cr in FY23.
Profitability margins of the company remain very thin as reflected from PBILDT and PAT margin of 2.24% and 0.79% respectively in FY24 (prov.) (PY: PBILDT and PAT margins were 2.2% and 0.77%).

Diversified Product Portfolio:
VAPL retails a diversified product portfolio of consumer durable items, which include mobiles, large appliances such as air conditioners, refrigerators and other small appliances. The company retails products of well-known brands such as Sony, LG, Oppo, Vivo among others (total 17 product manufacturers).

Franchise Model:
Vardhman Electronics Private Limited operates 34 stores under franchise model in which the company sells the goods to its franchise partners at fixed margins. Through franchise model VEPL expands their business and brand value with low risk of inventory & store management and capital infusion. On account of the franchise model VEPL gains the negotiation power with multiple brands through bulk buying. Going forward, VEPL also planning to expand their franchised stores across India.

Key weaknesses

Leveraged capital structure and moderate debt coverage indicators
The capital structure of the company stood moderate but improved as on March 31, 2024 as company has overall gearing ratio of 3.02x at the end of FY24 (Prov.) as compared to 2.96x in FY23 on account of increase in the working capital borrowing due to seasonality of business at the end of year. Further, the coverage indicators marked by Interest coverage and total debt to GCA improved and stood at 1.95x and 10.39x respectively in FY24 (Prov.) as against 1.92x and 13.83x in FY23. The total debt to GCA appears due to high investment in the working capital and high working capital borrowing at the year end. Also, Q1 being the busy season, company maintains high inventory at the year-end leading to higher borrowing. The high year end borrowing is mainly due to seasonality in the business as the company major products are AC and Refrigerator and due to coming summer season (period of Apr to Jul), the company has to stock high inventory at year end along with pressure from suppliers, leading to higher borrowing at year end.

High working capital requirement:

VEPL's working capital requirement remains high due to seasonality in the business company has to maintain high inventory from march to may on account of the same working capital limits remain fully utilised along with the adhoc limit being taken during the same period. Further operating cycle of 30 days at the end of FY24 (Prov.) & 30 days in FY23. Also the operating cycle appears higher at year end due to higher inventory, however the same remain less than 30 days post Q1 due to lower inventory holding. The company has strong supply-side relations due to direct sourcing from OEMs and logistical and distribution network in place. The company procures inventory on a credit period of average 45 days and collection period of the company stands around 26 days along with inventory holding period of around 52 days in FY24(Prov.). However, working capital utilisation remains more than 90% in last 12 months. The collection days are on account of the credit extended to the franchise and B2B customers.

Inventory risk
Electronic products are generally prone towards the risk of technology obsolescence and falling prices. This risk arises because consumer electronics, such as smartphones, laptops, and other gadgets, often have short lifecycles and can quickly become obsolete as newer models are introduced. VEPL's inventory risk is partially mitigated as the vendors comes with various schemes in case of slow movement of products and also laptop/mobile phone account for less than 5% of the total sales of the company. Further in the event of slow moving products or in the event of obsolescence, the company gets support from OEM by way of discount/sale scheme for slow moving items/obsolete products. The inventory management happens at the centralised level, with bulky items (refrigerator, AC) stored at warehouses & balance at stores. Inventory is ordered after analysing the demand of the product. The company has two centralised warehouses in Budh Vihar and Rithala Delhi and apart from that every store of the company has their own separate warehouse as well.

Stiff competition from online and offline channels in consumer electronic retail industry
VEPL is present in a highly competitive industry with competition from both online and offline players. The offline players comprise of established chains like Vijay Sales, Electronics Mart, Girias, Sales India etc. and small standalone shops. High competition has a negative impact on the margins of all the players including VEPL and the only way to make sizeable profits is through boosting

scale of operations along with controlling operating costs. Apart from this the company faces competition from online channels like Amazon and Flipkart, however as discussed with the management, the prices in online channels are higher than offline stores due to higher commission being charged by online channels, which can be passed onto the customer in the offline sales.

Liquidity: Stretched
Liquidity of VEPL is characterized by healthy cash accruals against very low repayment obligations of Rs.1.35 crore in FY25. Company has generated gross cash accruals of Rs.6.04 crore in FY24 (Prov.) which is expected to be improved in near future. Furthermore, company has cash balance to the tune of Rs. 0.59 crore as on March 31, 2024. Working capital limit remain fully utilised in last 12 months due to seasonality and continuous pressure from the suppliers to replenish the inventory.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Retail
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

In 2005, Mr. Tilak Raj Jain started Vardhman Electronics, a chain of multi-brand electronic stores. In 2020, the proprietorship firm was reconstituted as a private company with name as "Vardhman Electronics Private Limited (VEPL)".

Mr. Tilak Raj Jain and Ms Dolly Jain are the directors of the company. The company is currently managed by Manoj Jain and Ayush Jain. As on March 31, 2024, VEPL has 67 operational stores (33 owned, remaining Franchises) along with 2 centralised godowns in Delhi. The company majorly operates in Delhi, Haryana, Maharashtra, Jharkhand, Telangana, West Bengal and Uttar Pradesh. The company derives 50% of its income through B2B and 50% through retail and franchise. In the franchise, company charges 2.5% margin on the cost price.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	498.69	655.50	737.30
PBILDT	9.9	14.42	16.54
PAT	2.8	5.07	5.84
Overall gearing (times)	4.64	2.96	3.02
Interest coverage (times)	1.64	1.92	1.95

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-Term Loan		-	-	2031	4.28	CARE BB+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	39.30	CARE A4+

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	4.28	CARE BB+; Stable				
2	Fund-based - ST-Working Capital Limits	ST	39.30	CARE A4+				

LT: Long term; ST: Short term; LT/ST: 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	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Working Capital Limits	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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