

## Logica Infoway Limited

September 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	115.30 (Enhanced from 87.20)	CARE BBB; Positive	Reaffirmed
Short-term bank facilities	12.00	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of Ratings assigned to bank facilities of Logica Infoway Limited (LIL, formerly known as Eastern Logica Infoway Limited) considers the improvement in financial performance in FY24 (refers to April 01 to March 31) marked by increase in total operating income (TOI) and improvement in operating margins and profit. Ratings also consider the addition of new retail stores leading to business and geographical diversification in the medium term and is expected to improve the company's overall business risk. Ratings also continue to draw strength from the company's long track record and experienced promoters, well-diversified product portfolio consisting of all major brands, wide distribution network with strategically located retail outlets and favourable pricing dynamics resulting in low inventory/obsolescence risk.

However, ratings are constrained by moderate capital structure and debt protection metrics, low profitability margins due to trading nature of operations, working capital intensive operations and regional concentration of sales with intense competition in the fragmented market. 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

- Improving total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) of less than 4.5x on sustained basis.
- Improving PBILDT/Interest of over 2.75x on sustained basis.

#### Negative Factors

- Moderating scale of operations below ₹400 crore and operating margin below 1% on a sustained basis.
- Moderating in total operating liabilities to total net worth (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 operations, and improving liquidity position and debt levels. The outlook shall be revised to 'Stable' in case the company is unable to sustain its envisaged revenues, profitability or there is moderation in debt protection metrics from envisaged level.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

**Detailed description of key rating drivers:****Key Rating Strengths****Improved financial performance in FY24**

LIL's TOI witnessed year-on-year growth of 51% in FY24 to ₹1066.32 crore mainly due to increase in sale volumes of premium mobile phone brand with increase in average unit selling prices of mobile phones and laptops in FY24 over FY23 due to premiumisation trend as customers prefer high-end IT & IT products due to perceived high value addition and brand loyalty. Growth is also driven by increase in exports sales of mobile phones, which contributed ~18% of total sales in FY24.

PBILDT margins improved by 26 bps in FY24 attributable to change in sales mix as the sale of premium mobile segment has slightly better margins than laptops and increase in scale of operations resulted in economies of scale benefits. However, margins continue to remain low and range-bound owing to trading nature of operations and pre-specified margin range set by the principal.

Going forward, the company is expected to sustain its growth momentum in the near-to-medium term.

**Well-diversified mix of products and established relationship with reputed principals**

LIL 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, and computer peripherals such as printers, scanners, pen drives, software, computer accessories and cameras. Large number of products and availability from all major brands (such as HP, Redmi, Dell, Acer, Apple, Sony, Lenovo, Samsung, Vivo, Oppo among others) has assisted the company in increasing its customer base and reduce principal concentration risk through low dependence on a particular product/brand. Sale of mobiles constituted ~52% of the company's total sales in FY24 (PY: 60%) followed by sale of laptops about 44% of total sales in FY24 (PY: 37%).

The company also has well-diversified channels for sales of its products led by distribution, which contributes 46% of its total sales in FY24 (PY 65%) led by online sales (24%), exports (18%) and retail sales (13%), which provides significant cushion against slowdown in any channel of sales.

**Multiple stores in strategic location despite regional concentration risk**

LIL has 43 retail outlets, of which 27 are in-and-around central Kolkata, which is the hub of IT hardware stores, and 16 outlets in North India including Delhi, Uttar Pradesh and Haryana. The company has a wide distributorship network (with over 1200 retailers) for trading these products and sells online through tie-ups with e-commerce giants.

The company is expected to diversify its geographical reach by opening more retail outlets and expand its distribution network in the medium term.

**Favourable pricing dynamics resulting in low inventory/obsolesce risk**

LIL sources inventory from principals at a particular price and when sold to distributors, they sell it at a margin as specified by such principals. Higher margins are possible at LIL's own retail stores. In case of price drops, LIL also has to drop the price and is compensated by its dealers.

**Experienced promoters and long track record of the company**

LIL commenced operations in 1995 and has a long track record of operations spanning over two decades. Over the years, it has established itself as prominent trader in the IT hardware industry. Gaurav Goel, the company's promoter has rich experience of over two decades in trading of IT products and has been instrumental behind the company's growth.

## Key weaknesses

### Moderate capital structure and debt protection metrics

The company's capital structure continued to remain moderate marked by overall gearing of 1.76x as on March 31, 2024 (PY: 1.20x). Moderation was mainly due to increase in working capital borrowings required to the increasing scale of operations in FY24.

Debt protection metrics improved but remained weak in FY24 marked by TD/GCA ratio of 13.06x as on March 31, 2024, from 15.35x as on March 31, 2023.

Capital structure and debt protection metrics are expected to remain moderate in the near-to-medium term, given funding requirements for increasing scale of operations.

### Low operating margin due to trading nature of operations

LIL's profitability margins have continuously remained low, and range bound, which is mainly due to trading nature of business operations combined with high level competition in the IT hardware trading industry with low entry barriers.

### Working capital intensive operations

The company's working capital requirement is traditionally high because of stocking requirements, as inherent in the distribution business and dealer credits leading to high receivables. It needs bank limits to finance inventory and receivables period, making the business working capital intensive. The company's cash flow from operations has been negative at ₹22.68 crore in FY24 (negative ₹13.20 crore in FY23). The company's operating cycle continued to remain moderate, although improved and stood at 39 days in FY24 (PY: 44 days) and consequently utilisation of fund-based bank limits remained moderate at around 76% in 12-months ended June 2024. Going forward, working capital requirements are expected to increase with increasing scale of operations, which will affect cash flow from operations. The company's ability to maintain current operating cycle and current capital structure, while achieving envisaged scale of operations, would be a key rating monitorable, going forward.

### Highly competitive market with regional concentration

LIL is exposed to intense competition due to large number of players operating in the business and fragmented nature of the industry. Sales are primarily skewed in northern and eastern region (Kolkata, West Bengal), which remains the two largest revenue contributors with revenue share of 64% and 36% followed by southern and western regions in FY24. However, with increase in export sales of mobile phones contributing 18% of total sales in FY24 against 3% in FY23, regional concentration risk is mitigating to a certain level.

### Liquidity: Adequate

The company has adequate liquidity characterised by sufficient cushion in GCA of ₹8.26 crore against scheduled debt repayment obligations of ₹1.90 crore in FY24; supported by above unity current ratio. Its fund-based bank limits are utilised in the range of 76% in 12-months ended June 2024. Working capital limits have been increased from ₹75 crore to ₹97 crore in June 2024, which added cushion to the company's liquidity.

### Environment, social, and governance (ESG) risks- Not applicable

### Applicable criteria

Definition of Default

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Rating Watch

Financial Ratios – Non financial Sector

Short Term Instruments

Wholesale Trading

## About company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services & supplies	Trading & distributors

LIL (formerly known as Eastern Logica Infoway Limited) was incorporated in July 1995 by J.K. Baid as Oswal Infotech Private Limited. In FY02, Gaurav Goel, a first-generation entrepreneur, took over the company. The company renamed Eastern Logica Infoway Limited in 2002. In 2024, the company name was further changed to its present name.

LIL 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 retails outlets. The company's day-to-day operations are managed by Goel and a team of experienced staff.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	704.96	1066.32
PBILDT	11.38	19.92
PAT	3.51	8.10
Overall gearing (times)	1.20	1.76
Interest coverage (times)	1.78	2.08

A: Audited, UA: Unaudited; NA: Not Available' Note: These are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd:** Not applicable

**Disclosure of Interest of Managing Director & CEO:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	112.00	CARE BBB; Positive
Fund-based - LT-Term Loan		-	-	November, 2026	3.30	CARE BBB; Positive
Fund-based - ST-Working Capital Limits		-	-	-	12.00	CARE A3+

**Annexure-2: Rating history for 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-Cash Credit	LT	112.00	CARE BBB; Positive	-	1)CARE BBB; Positive (07-Mar-24)	1)CARE BBB; Positive (31-Jan-23)	1)CARE BBB; Stable (31-Dec-21)
2	Fund-based - LT-Term Loan	LT	3.30	CARE BBB; Positive	-	1)CARE BBB; Positive (07-Mar-24)	1)CARE BBB; Positive (31-Jan-23)	1)CARE BBB; Stable (31-Dec-21)
3	Fund-based - ST-Working Capital Limits	ST	12.00	CARE A3+				

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instrument / facilities-** Not applicable**Annexure-4: Complexity level of 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
3	Fund-based - ST-Working Capital Limits	Simple

**Annexure 5: Lender details**To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instrument:** 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](mailto:care@careedge.in) for clarifications.

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