

Supertron Electronics Private Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	437.00 (Enhanced from 406.67)	CARE A; Positive	Reaffirmed
Short-term bank facilities	486.00 (Enhanced from 336.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Supertron Electronics Private Limited (SEPL) factors in increase in scale of operation and sustained operating margins in FY24. Ratings continue to derive strength from long experience of promoters, long-established association with reputed principals, established market position in the domestic Information Technology (IT) distribution industry, satisfactory capital structure and debt protection metrics, widespread geographical distribution network with a well-diversified mix of product offerings and low inventory obsolesce risk. CARE Ratings Limited (CARE Ratings) takes note of addition of new business segment, commercial / institutional segment, in FY24, under which, the company supplies products in bulk quantity to corporates, public sector undertakings (PSUs), and state governments. Accordingly, the company's revenue potential is expected to increase along with diversification in business segment.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving operating margins (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) beyond 3% on a sustained basis.
- Total debt to gross cash accruals (TD/GCA) of less than 3.0x on a sustained basis.

Negative factors

- Moderating operating margins below 1.5% on a sustained basis.
- Increasing operating cycle beyond 50 days on sustained basis.
- TD/GCA of over 8.0x on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The continued 'Positive' outlook on the company's long-term ratings factor in expected increase in scale of operations while sustaining profitability margin and improving in capital structure and debt coverage indicators from 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 leverage and coverage indicators.

Detailed description of key rating drivers

Key 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 for over two decades. The long track record of operations has enabled the company to establish a strong distribution and marketing network across India, which has led to the addition of new principals and newer product profiles in its distribution portfolio. Currently, the company is

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

looked after by VK Bhandari, who has over two decades of operational experience and has maintained long-term relationships with its principals and customers.

Established relationships with reputed principals and diversified product portfolio

The company's diversified network and long experience of promoters have facilitated it to establish relationships with reputed brands and deal in over 50 diverse IT product categories. SEPL has maintained long-term relationships with its suppliers, including Dell, Seagate, and Acer, with whom it has been associated for over a decade. The company also has association with Lenovo and Samsung, which diversified principal concentration risk to a certain extent and led to further diversification in its product portfolio. Sufficient diversification in the product and principal profile will likely help the company sustain its financial performance in the near to medium term.

Addition of new sales segment, commercial / institutional segment in FY24

The company has added a new sales segment, commercial segment, under which, the company supplies products in bulk quantity to corporates, public sector undertakings (PSUs), and state governments. Under this segment, the company generally has back-to-back order arrangement with less than a week of inventory period and 60-90 days of debtor and creditor period. Total outside liabilities to tangible net worth (TOL/TNW) is higher in this segment due to elongated creditor period, which doesn't impact overall working capital cycle due to largely matching debtor and creditor period in this segment. Operating margin in this segment is slightly lower than traditional wholesale/dealership business.

The company has earned revenue of ~₹1000 crore in FY24 and this segment is expected to grow in FY25.

Improvement in scale of operations from new business segment and sustained operating margins in FY24

The company's TOI grew by ~30% y-o-y in FY24 to ₹6730 crore from ₹5150 crore from the addition of new sales segment, commercial / institutional segment, and earned revenue with addition of new products such as mobile phones. Operating margins remained steady, and range bound between 2.50-2.80% in the last three fiscals and it is expected to sustain in near to medium term. On absolute level, PBILDT increased by 20% y-o-y in FY24 to ~₹172 crore considering higher scale of operation and largely steady operating margins. Profit after tax (PAT) and GCA also increased to ₹98 crore in FY24 (P.Y.: ₹84 crore) and ₹106 crore (P.Y.: ₹91 crore), respectively, despite an increase in finance costs attributable to higher working capital utilisation in FY24 to support the company's enhanced scale of operation.

In Q1FY25, the company already earned a TOI of ~₹1,600 crore, which is expected to increase in FY25 over FY24, driven by growth in commercial / institutional, addition of new products, namely mobile phones.

Satisfactory capital structure and debt protection metrics

Although the company's total debt levels increased in FY24 over FY23 considering higher utilisation of working capital limits, capital structure and debt protection metrics remained satisfactory.

Overall gearing stood steady at 1.26x as on March 31, 2024 (PY: 1.34x). However, TOL/TNW moderated in FY24 to 3.81x as on March 31, 2024, from 2.96x as on March 31, 2023, considering increase creditors level attributable to commercial/institutional segment as discussed earlier. Debt coverage indicators marked by interest coverage and TD/GCA continued to remain satisfactory at 3.30x (PY: 3.87x) and 6.25x (PY: 6.25x) as on March 31, 2024, respectively.

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

Low inventories obsolesce/price risk

Electronics industry in India faces high price volatility risk as products are exposed to factors including 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 principals, where 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. In the case of a product that remains unsold by resellers considering defect or obsolescence, which is directly returned to principles by resellers, reducing SEPL's liability.

Key weaknesses

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

SEPL continues to derive majority revenue primarily from Dell, Samsung, Acer, Lenovo, and Seagate (75% in FY24 against 78% in FY23). However, the company focuses on adding new products of established brands to its product portfolio to diversify revenue base on a year-on-year basis, which mitigates concentration risk to an extent. SEPL gradually increased its sales

contribution from other brands (~22% in FY23 to ~25% in FY24). Established position of principals in their respective segments mitigates concentration risk to some extent.

Working capital-intensive 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 inventory holding period, making the business working capital intensive. As envisaged, total debt levels increased in FY24 to support increased scale of operations. Operating cycle continued to remain range bound at 38 days in FY24 (PY: 42 days).

Going forward, working capital requirement is expected to remain high in anticipation of increase in scale of operations and inventory stocking requirements. The company's ability to maintain current operating cycle and current capital structure while scaling up its operations will be a key rating monitorable.

Low profitability margins and high level of competition in the industry

SEPL's profitability margins have continuously remained low, despite improving in the recent past, which is mainly attributed to trading nature of business operations combined with the high competition level in the IT hardware trading industry with low entry barriers. Profitability margins are expected to range bound at the current level in the near-to-medium term.

Foreign exchange risk, although low, is present

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

Liquidity: Adequate

Adequate liquidity position is characterised by comfortable cushion in accruals (₹106 crore) against repayment obligations (₹13 crore) in FY24, supported by a moderate cash and bank balance of ₹23 crore as on March 31, 2024. The company's fund-based bank limits were utilised (month-end) in the range of 84% in 12-months ended August 31, 2024. The company enhanced its working capital limits by ₹190 crore in the current fiscal year, which add cushion to the company's liquidity profile and enhanced bank limits will likely be adequate to meet incremental working capital requirements to support higher scale of operations in the near-to-medium term.

Going forward, the company's liquidity position is expected to remain adequate considering the healthy GCA, which is expected to sufficiently cover scheduled debt repayment obligations of ₹10.0 crore in FY25.

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](#)

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[Short Term Instruments](#)

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About the company and industry

Industry classification

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

Promoted by VK Bhandari of Kolkata in 1993, SEPL is a national distributor of computer and associated peripherals of around 30 major global IT brands such as Acer, Dell, Lenovo, Seagate, Samsung, Xerox, Wacom, and LG, among others. SEPL's traded product portfolio is diversified with ~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 Cloudtail, Amazon, and Flipkart as its channel partners, and players such as Infinity Retail, Reliance Digital, Vijay Sales in the organised retail store segment.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	5,180.71	6,729.98	1600.00
PBILDT	142.83	171.99	NA
PAT	84.38	97.97	NA
Overall gearing (times)	1.34	1.26	NA
Interest coverage (times)	3.87	3.30	NA

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instruments/facilities: 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	-	-	-	-	420.00	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	486.00	CARE A1
Term Loan-Long Term	-	-	-	March 2027	17.00	CARE A; Positive

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	420.00	CARE A; Positive	-	1)CARE A; Positive (04-Aug-23)	1)CARE A; Positive (12-Sep-22)	1)CARE A; Stable (05-Nov-21)
2	Non-fund-based - ST-BG/LC	ST	486.00	CARE A1	-	1)CARE A1 (04-Aug-23)	1)CARE A1 (12-Sep-22)	1)CARE A1 (05-Nov-21)
3	Term Loan-Long Term	LT	17.00	CARE A; Positive	-	1)CARE A; Positive (04-Aug-23)	-	-

LT- Long term; ST-Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Arindam Saha Director CARE Ratings Limited Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Punit Singhania Associate Director CARE Ratings Limited Phone: +91-033- 40181620 E-mail: punit.singhaniania@careedge.in
	Vikash Kumar Rai Assistant Director CARE Ratings Limited E-mail: vikashkumar.raai@careedge.in

About us:

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