Sangeetha Mobiles Private Limited

December 05, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings to bank facilities of Sangeetha Mobiles Private Limited (Sangeetha Mobiles) factor in its established presence in south India, backed by long operational track record of about three decades in mobile retail operations and strong brand recall for its stores. Ratings continue to factor in the consistent improvement in scale of operations and the growth expected to be supported by company's plan to enter new geographies like Maharashtra and Orissa, thereby reducing the geographical-concentration risk too. Moreover, the company operates in the asset light business model and has prudently manages its working capital requirement with lower dependency on borrowings. It has limited inventory obsolescence risk which helps it to maintain the margins. Furthermore, with no plans to avail any term debt in the near future with expansions planned to be funded out of internal accruals, the capital structure to continue to remain comfortable after adjusting lease liability. In order to improve the operational efficiency, Sangeetha Mobiles has established a subsidiary, viz., Wham Infocom Private Limited (Wham) for operation/expansion of its existing stores in the states of Andhra Pradesh and Telangana under the brand name of Sangeetha. The ratings, however remained constrained on account of low profitability margins as the company operates in the mobile retail industry and faces stiff competition due to its fragmented nature in both offline and online market from the established players in the industry which in turn limits its pricing flexibility. Sangeetha faced moderation in profitability margins in FY23 and FY24 on account of two of its major brands reducing the gross dealer margins. However, on the back of addition of new brands with better margins, revision in gross margins by existing player coupled with cost initiative measures adopted by the management such as direct sourcing from original equipment manufacturers (OEMs), the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin is expected to register an improvement going forward. Ratings are partially offset by geographical concentration risk and exposure to product and brand concentration risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operation above ₹4,000 crore with PBILDT over 6% and return on capital employed (ROCE) above 18%.
- Total outside liabilities to tangible net worth (TOL/TNW) below 2.00x, total debt to PBILDT (without Ind AS 116 Impact) less than 1x with ICR over 4x on a sustained basis.

Negative factors

- Decline in scale of operation below ₹2,000 crore with PBILDT below 4% and ROCE below 14%.
- Any debt-funded capex resulting in total debt to PBILDT (without Ind AS 116 Impact) above 2.00x and TOL/TNW above 3.50x.

Analytical approach: Consolidated

While arriving at ratings, CARE Ratings Limited (CARE Ratings) has considered consolidated financial and business of Sangeetha Mobiles along with its subsidiaries viz. Wham Infocom Private Limited and Anu Distributors Private Limited 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.

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

Detailed description of key rating drivers:

Key strengths

Leading mobile retailer in south India with established brand presence
Sangeetha Mobiles was established in 1974 as a multi-brand retail outlet and was converted into a private limited company in 2008. It is one of the leading mobile retailers in south India having significant presence in Andhra Pradesh, Telangana (which are being operated under Wham, a 100% subsidiary of Sangeetha Mobiles), Karnataka, Tamil Nadu, and Goa. The promoters, L Narayana Reddy and L Subhash Chandra (MD), have over four decades and two decades of experience each in the retail industry and are well-supported by CEO, CFO, and Directors looking after various functions. The company deals with all leading mobile handset manufacturers such as Apple, Samsung, Xiaomi,Vivo,Oppo, RealMe, Oneplus, and Nokia among others through its retail network of 755 stores across South India.

Consistent improvement in scale of operations
On a consolidated basis, the company's scale of operations has grown with a compounded annual growth rate (CAGR) of 7.19% in the last five years. Retail operations were impacted in FY21 and in early FY22 due to lockdowns and restrictions imposed amid COVID-19. The scale of operations improved by 24% from ₹1,785 crore in FY22 to ₹2,216 crore in FY23 and subsequently by 9% to ₹2,408 crore in FY24. At a consolidated level, the company has added ~10 stores in H1FY25 and plans to add another 10 stores by end of the FY25 (against addition of 33 stores in FY24). Hence, the growth in TOI is expected to remain moderate in FY25.

Satisfactory capital structure
On a consolidated level, the company operates at comfortable capital structure with majority debt in form of lease liabilities and working capital borrowings. The adjusted TOL/TNW (adjusted for lease liabilities) stood comfortable at 0.73x as on March 31, 2024 when compared to 0.95x as on March 31, 2023. The company re-invests cash accruals generated in opening the new stores and for the working capital management of the company, which results in lower utilisation of working capital borrowings. 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 prudent 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. The company generally maintains ~45 days of inventory for the smooth flow of the operations at store level. However, the company stocks up higher inventory in the month of June considering anniversary sales of Sangeetha Mobiles and in the festive months to carter the customer demand which would be primarily funded of the working capital limits.

Key weaknesses

Limitation on price flexibility
Sangeetha Mobiles operates in the mobile retail industry and faces stiff competition due to its fragmented nature, in both offline and online markets from the established players in the industry. Moreover, Sangeetha Mobiles has limited bargaining power with brands that fix the gross margins. Sangeetha Mobiles faced moderation in profitability margins in FY23 and FY24 considering two of its major brands reducing the gross dealer margins. CARE Ratings notes that on the back of addition of new brands with better margins, revision in gross margins by existing player and cost initiative measures adopted by the management such as direct purchase from OEMs, the PBILDT margin is expected to register an improvement going forward.

Exposed to geographical, product, and brand concentration risk
Sangeetha Mobiles is majorly concentrated on the retailing of mobiles which contribute ~90% of the total sales of the company. Moreover, in terms of stores, the company's majority stores are in Karnataka with ~310 stores contributing ~41% of the total stores of the company. The company deals with leading mobile handset manufacturers with Top five brands contributing 80% to total sales for FY24. However, with the company expanding its stores in Andhra Pradesh, Telangana, and Tamil Nadu and with the launch of other products, these risks are mitigated to some extent. Hence, the company's ability to expand geographically and improvement in PBILDT margins amidst competitive business environment remain critical from credit perspective.

Liquidity: Adequate
Sangeetha Mobiles' liquidity position stood adequate marked by healthy demand for smartphones and mobile accessories in the Indian market along with its significant market share in the South Indian states leading to healthy cash accruals against nil term loan repayment obligations for the company. The average maximum fund-based working capital utilisation stood at 31% for the

12 months ended September 2024, majorly to fund its working capital requirements. The company had consolidated cash and equivalents of ₹19.27 crore as on March 31, 2024 and ₹22.35 crore as on September 30, 2024.

Applicable criteria

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

About company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Retailing	Speciality retail

Sangeetha Mobiles was established in 1974 as the multi-brand retail outlet and was converted into private limited company in 2008. Sangeetha is engaged into retailing mobile phones and related accessories and is one of the leading multi-brands mobile retailers in south India having presence in Karnataka, Tamil Nadu, Goa, Andhra Pradesh, and Telangana. It deals with all leading mobile handset manufacturers such as Apple, Samsung, Xiaomi, Vivo, Oppo, RealMe, Oneplus, and Nokia among others through its retail network of 755 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 Sathish Kumar (CFO), and Anil Prabhas (Director Sales) among others.

Brief Financials Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30,2024 (UA)
Total operating income	2,216.29	2,407.63	1,224.50
PBILDT	119.73	110.22	56.74
PAT	28.05	19.73	NA
Overall gearing (times)	1.45	1.48	1.43
Interest coverage (times)	3.10	2.44	2.38

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

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

List of entities consolidated : Annexure-6

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

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	165.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (25-Oct-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Wham Infocom Private Limited	Full	Operational, financial and managerial linkages
2	Anu Distributors Private Limited	Full	Operational, financial and managerial linkages

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.

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About us:

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