Sonovision Electronics Private Limited

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Sonovision Electronics Private Limited (SEPL) derives strength from vast experience of its promotors in electronic retail store industry, established track record of operations under 'Sonovision' brand in Andhra Pradesh, continuous growth in SEPL's scale of operations while maintaining a comfortable financial risk profile and adequate liquidity.

The above rating strengths are, however, partially offset by geographical concentration of its operations with high working capital intensity, moderate profitability which is vulnerable to inventory obsolescence risk, and intense competition from a large number of organised and unorganised players dominating the market via online and offline mode. This apart, the sector continues to remain interest rate and economic cycle sensitive.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling up of operations in Telangana state, thereby, reducing geographical concentration and achievement of Total operating income (TOI) above Rs.3000 crore along with improvement in Profit before Interest, Lease, Depreciation and Taxes (PBILDT) margin on sustained basis.

Negative factors

- Moderation in scale of operations to below Rs.1250 crore on sustained basis.
- Increase in debt-funded capex resulting into moderation in overall gearing beyond unity on sustained basis.
- Moderation in operating cycle above 60 days on sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited (CARE Ratings') view that SEPL shall continue to benefit from its experienced promoters, strong market position in Andhra Pradesh and gradual expansion in Telangana. SEPL is expected to maintain stable annual growth in operations and a comfortable financial risk profile.

Detailed description of key rating drivers:

Key strengths

Experienced promotors with established track record of operations; albeit geographical concentration

SEPL is currently managed by the second generation of promotor Mr. Bhaskara Moorthy Potluri, who has more than three decades of experience in electronic retail industry. SEPL is the largest electronic retail store chain in Andhra Pradesh with 56 stores and is gradually expanding in Telangana with 13 stores till September 30, 2024. Of 69 stores as at H1FY25 end (FY refers to period between April 01 to March 31), 30 stores are owned by the promotors in their individual capacity. SEPL has diversified product portfolio with majority of sales derived from large appliances viz. Air-conditioner and Television [49% of FY24 TOI (FY23:45%)].

Stable annual growth in scale of operations

SEPL has reported Cumulative Annual Growth Rate (CAGR) of 19% in past 3 years ended FY24 to Rs.1699.15 crore in FY24 driven by growth in revenue from existing stores and scaling up of new stores. Revenue per store has increased from Rs.23.70 crore in FY23 to Rs.26.28 crore as on H1FY25 (annualised). As per provisional results for H1FY25, SEPL has reported TOI of ~Rs.907 crore and is expected to achieve TOI of ~Rs.2000 crore in FY25.

Comfortable financial risk profile

SEPL maintains a conservative approach to debt, with nil term debt and minimal reliance on bank borrowings for working capital needs. This results in a comfortable capital structure, evidenced by an overall gearing ratio of 0.70x (FY23: 0.82x) and a total outside liabilities to tangible net worth (TOL/TNW) ratio of 1.52x (FY23: 1.83x) as on March 31, 2024.

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

The debt coverage metrics remained comfortable marked by interest coverage ratio of 7.73x during FY24 (FY23: 6.02x) and total debt/ PBILDT at 1.35x as on March 31, 2024, as against to 1.41x as on March 31, 2023. Low reliance on debt and high inventory turnover have resulted in strong return ratios, with the Return on Capital Employed (ROCE) at 34.53% in FY24 (PY: 38.92%).

Efficient inventory management

SEPL has low inventory holding period on account of lead time of 1-2 days post placement of procurement order. SEPL has healthy inventory turnover ratio of 9.23x as on FY24 end (PY: 10.64x). The marginal moderation in the inventory turnover ratio is due to higher inventory levels as of the balance sheet date, aimed at meeting the demand for the upcoming summer season.

Key weaknesses

Moderate PBILDT margin

SEPL has reported moderate PBILDT margins in range of 3-4% in past 3 years ended FY24 due to the limited value addition and trading business. PBILDT and PAT margin improved marginally y-o-y by 30 bps (to 4.02%) and 10 bps (to 2.54%) respectively in FY24 on account of better bulk discounts and incentives received from suppliers consequent to increase in TOI and economies of scale. Considering SEPL is focusing on expansion of its presence in Telangana and increasing its presence through launch of new showrooms, sustenance of profitability would be a key monitorable.

Presence in intensely competitive and fragmented industry

The electronic retail sector is equally dominated by organised market participants and unorganised local shops. Additionally, authorised brick-and-mortar distributors also encounter competition from the existing e-commerce businesses which offers competitive pricing and a wider range of options. Consequently, a competitive environment prevails throughout the industry. This situation ultimately results in customers having significant bargaining power, leaving SEPL with a thin markup on overall cost.

Inventory obsolescence risk

Electronic products often have a short life-cycle due to rapid technological advancements and change in preferences and trends of the consumers. New and improved models are frequently introduced, leading to the obsolescence of older models. Hence, it becomes necessary for the electronic retail chains to maintain an optimum inventory level and anticipating the demand via observing the change in demand pattern. Procurement of goods from suppliers on SOR (Sale or Return) basis mitigates the risk of inventory obsolescence to a certain extent.

Liquidity: Adequate

SEPL's liquidity position is adequate marked by Nil term debt, moderate utilisation of working capital limits, cushion in form of enhanced working capital limits, lean operating cycle and positive Cashflow from Operations (CFO). Average of maximum utilisation of working capital limits remained around ~60% in trailing 12 months ended September 2024. Working capital limits have been enhanced from Rs.70 crore to Rs.130 crore in October 2024, thereby providing additional liquidity cushion.
SEPL's operating cycle remained lean at around 15-20 days in past 3 years ending FY24 on account of efficient inventory holding period of 30-40 days. SEPL had moderate current ratio of 1.29 times in FY24 (FY23: 1.21x). SEPL's operations are working capital intensive marked with Operating capital employed (OCE) majority in working capital as evinced from NWC (Net-working capital) as percentage of OCE of ~75%. Company has reported CFO of Rs.7.49 crore as on FY24 (-ve CFO in FY23). SEPL had free cash and cash equivalent at Rs.8.52 crore as on FY24 end (FY23: Rs. 13.52 crore).

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Household Products	Household Products

Constituted as a proprietorship concern in 1969 by Mr. Janardhan Moorthy Potluri, Sonovision started retail of electronic items in Andhra Pradesh (AP). In 1990, three firms viz. Vijaya enterprise, Sonovision enterprise and Sonovision electronics were incorporated to carry out retail trade via multi chain stores. In 2019, SEPL was incorporated and the entire business from these firms was transferred to SEPL in 2022. SEPL is currently managed by second generation of promotor i.e. Mr. Bhaskara Moorthy Potluri.

SEPL is the largest electronic retail multi store chain in AP with 69 stores spread across AP (56 stores) and Telangana (13 stores). SEPL has long standing relationship with suppliers and are dealer for brands like LG, Samsung, Sony, Godrej, Whirlpool, Panasonic, Videocon, Onida, Hitachi, Daikin, Carrier, IFB, Voltas, Blue Star, Haier, Lloyd etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1,422.37	1,699.15	907.03
PBILDT	52.56	68.37	NA
PAT	34.71	43.24	NA
Overall gearing (times)	0.82	0.70	NA
Interest coverage (times)	6.02	7.73	NA

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

Annexure-1: Details of instruments/facilities:

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	130.00	CARE A-; Stable

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	130.00	CARE A-; Stable				

LT: Long 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

Annexure-5: Lender details

To view the 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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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