Eastern Logica Infoway Limited

February 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	35.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Total	**35.00 (Rs. Thirty five crore only)**		

** Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Eastern Logica Infoway Limited (ELIL) continues to draw strength from the long experience of the promoters, diversified product portfolio consisting of all major brands, wide distribution network with strategically located retail outlets and satisfactory financial performance in FY20 (refers to the period April 1 to March 31) with moderate debt protection metrics.

The rating, however, is constrained by the low profitability margins due to trading nature of operations and regional concentration of sales with intense competition in the fragmented market.

Key Rating Sensitivities

Positive Factor

- The ability of the company to increase its scale of operations coupled with improvement in operating margin beyond 1.75% on a sustained basis.
- Improvement in the capital structure with overall gearing ratio below 0.75 times on a sustained basis.

Negative Factors

- Deterioration in the debt protection metrics (Total Debt/GCA>14 times) on a sustained basis.
- Average utilization of the working capital limits above 95% on a sustained basis.

Key Rating Strengths

Experienced promoters and long track record of the company

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

Well diversified mix of products

ELIL has a well-diversified product profile with a product base of more than 40 reputed brands. The product portfolio includes monitors, laptops, PC hardware components, computer peripherals like printers, scanners, pen drives, software, computer accessories, mobile handsets and cameras. ELIL has gradually changed its product mix to IT hardware distribution segment entailing better margins and is focusing more on sales through retailer mode and online mode, yielding higher/ better margins. In line with shift of company's focus towards sale of laptops with gradual discontinuance of mobile wholesaling/ distribution business, ELIL has reported a huge increase in the sales of laptop computers to Rs.267.20 crore in FY20 from Rs.81.52 crore in FY19 whereas sales of mobile phones have reduced gradually over the last 3 fiscals).

Further, during the current year, ELIL has engaged with Nokia to sell its feature phones and has also collaborated with Zotac to venture into gaming segment. Also, ELIL has become the official online and offline partner of Asus.

Wide distribution network and strategically located retail outlets

ELIL has a wide distribution network (with around 1,200 retailers) across the country and also operates through eight retail outlets, of which seven are strategically located in and around central Kolkata, (hub of IT hardware stores), and one outlet in Delhi (located in the electronic hub) all of which are on rent. Thus, sales are primarily skewed in the

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

eastern region which remains the largest revenue contributor. Further, the company also sells through online platforms (~37% of total sales in FY20 are made through online portals).

Satisfactory financial performance in FY20 with moderate debt coverage indicators

The total sales of ELIL improved to Rs.490.79 crore in FY20 from Rs.395.13 crore in FY19 thereby registering a y-o-y increase of ~24.21% over FY19. The improvement is attributable to increase in volume of laptops sold by nearly 2.35x in FY20. The key revenue contribution is from the sales of laptops and mobiles which together contributed around 86% (84% in FY19) of the total sales in FY20. The operating margins continue to remain low and range bound owing to trading nature of operations. The PBILDT margin decreased by 20bps to 1.31% in FY20 (1.50% in FY19) mainly owing to higher commission paid in FY20, on account of increased online sales which attract higher commission expenses. GCA of the company improved and remained comfortable at Rs.2.28 crore in FY20 (Rs.1.82 crore in FY19) vis-à-vis debt repayment obligation of Rs.0.19 crore in FY20.

The company has marginal long-term debt exposure (mainly vehicle loans and unsecured business loans from banks and NBFCs) and is mainly dependent on working capital borrowings for its operations. Overall gearing (after adjusting the pledged FD) improved and remained satisfactory at 0.82 times as on March 31, 2020 (0.99 times as on March 31, 2019) due to accretion of profits to the reserves. Also, Adjusted TDGCA improved to 10.27 times as on March 31, 2020 from 13.93 times as on March 31, 2019.

Key Rating Weaknesses

Low operating margin due to trading nature of operations

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

Highly competitive market with regional concentration

ELIL is exposed to intense competition due to large number of players operating in the business and the fragmented nature of the industry. Further, the sales are primarily skewed in the eastern region (Kolkata, West Bengal) which remains the largest revenue contributor with revenue share of ~57% (53% in FY19) followed by northern and southern regions having revenue share of 35% and 7% respectively in FY20 (36% and 7% respectively in FY19).

Liquidity Position: Adequate

Liquidity is adequate marked by sufficient gross cash accruals vis-à-vis nominal debt repayment obligations and moderate cash balance to the tune of Rs.1.15 crore as on March 31, 2020 (Rs.3.94 crore as on November 31, 2020). GCA stood at Rs.2.28 crore in FY20 against negligible debt repayment obligation of Rs.0.19 crore. In FY21, ELIL's debt repayment obligation stands at Rs.0.19 crore. This apart, the company also has FD (pledged as margin) of Rs.5.91 crore as on March 31, 2020. Average Utilization of the CC limit is around ~91% during the past 12 months ended December 31, 2020.

Further, the company had availed moratorium benefits under the RBI's COVID-19 Regulatory Package on interest on Cash Credit account.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
Complexity level of rated instrument
Liquidity analysis for non-financial sector entities
CARE's Policy on Default Recognition
Criteria for short-term Rating
Rating Methodology for Wholesale Trading
Financial ratios – Non-Financial Sector

About the Company

ELIL, incorporated as Eastern Infoway Ltd in July, 1995, was promoted by Mr. Gaurav Goel. ELIL 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 seven retails outlets in Kolkata and one in Delhi. ELIL has tied up with major e-commerce platforms and sales from such platform amounted to Rs.183.85 crore in

FY20 (representing 37% of the total sales in FY20). Currently, the day to day operations of the company are looked after by Mr. Goel along with a team of experienced staffs.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	401.28	498.68
PBILDT	6.05	6.48
PAT	1.58	1.94
Overall gearing (times)	0.99	0.82
Interest coverage (times)	1.75	1.77

A: Audited

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 for this company: Please refer Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Feb-20)	1)CARE BBB; Stable (29-Mar-19) 2)CARE BBB; Stable (18-Jul-18) 3)CARE BBB; Stable (14-Jun-18) 4)CARE BBB; Stable; ISSUER NOT COOPERATING* (04-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument/ facilities:

1. Cash Credit Limit	**Detailed explanation**
A. Financial covenants	• The margin applicable is 25% on finished goods and 40% on receivables (90 days).
B. Non-financial covenants	• Furnishing of monthly stock and receivables statements within a maximum period of 20 days after close of the relevant month. • Cover period for receivables are of 90 days. Drawing power will not be available on unpaid stocks.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	**Name of the Instrument**	**Complexity Level**
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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