Eastern Logica Infoway Limited

January 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	56.78 (Enhanced from 49.77)	CARE BBB; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Eastern Logica Infoway Limited (ELIL) factors in the increase in scale of operation of the company during FY22 (refers to the period April 1 to March 31) marked by increase in total operating income (TOI) and steady debt levels post successful launch of company's initial public offer (IPOs). The rating action also takes into account the expansion of business into new territory, which is expected to lead to moderation in geographic concentration risk over the medium term coupled with addition of new brands which will result in further diversification of principals and products portfolio and thereby expected to improve the overall business risk of the company.

The rating also 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 favourable pricing dynamics resulting in low inventory/obsolesce risk. The rating, however, is constrained by moderation in capital structure and debt protection metrics in FY22, low profitability margins due to trading nature of operations, working capital intensive nature of operations and regional concentration of sales with intense competition in the fragmented market.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- The ability of the company to increase its scale of operations coupled with improvement in operating margin beyond 1.75% on a sustained basis
- Total debt to GCA of less than 9.0x on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Moderation in the scale of operation below Rs.400 crore and operating margins below 1% on a sustained basis.
- Moderation in TOL/TNW over 4.0x on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The outlook has been revised from 'Stable' to 'Positive' in view of anticipated sustenance in growth momentum in scale of operation, improvement in liquidity position and steady debt levels post successful launch of company's initial public offers (IPOs). The outlook shall be revised to 'Stable' in case the company is unable to sustain its envisaged revenues and profitability or there is moderation in debt protection metrices from envisaged level.

Detailed description of the key rating drivers

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

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

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 and established relationship with reputed principals: ELIL 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, computer peripherals like printers, scanners, pen drives, software, computer accessories and cameras. The large number of products and availability of the products from all major brands (like HP, Redmi, Dell, Acer, Apple, Sony, Lenovo, Samsung, Vivo, Oppo etc.) has assisted the company in increasing its customer base and reduces the principal concentration risk through low dependence on a particular product/brand. Sale of mobiles constituted about 52% of the total sales of the company in FY22 (PY: 36%) followed by sale of laptops about 44% of total sales of the company in FY22 (PY: 54%). Furthermore, ELIL has also become authorised retailer of Apple for Kolkata and direct retail partner of Oneplus and Nokia for sale of feature phones whose prices are generally below Rs.3,000 and find high demand in the suburbs of West Bengal resulting in sales of around Rs.36 crore in FY22 as against sale of around Rs. 18 crores in FY21.

Multiple stores in strategic location albeit regional concentration risk: ELIL has total eight retail outlets, of which seven are strategically located in and around central Kolkata, in an area which is the hub of IT hardware stores, and one outlet in Delhi (located in the electronic hub). The company has a wide distributorship network (with more than 1200 retailers) for trading these products and also sells the products online through its own website and through tie-ups with other e-commerce giants like Amazon, Shopclues, Flipkart, and Snapdeal etc. ELIL achieved online sales of Rs.210 crore in FY22 (i.e. around 34% of the total sales).

Favourable pricing dynamics resulting in low inventory/obsolesce risk: ELIL sources inventory from various principals at a particular price and when sold to distributors, they sell it at a margin as specified by such principals. Furthermore, higher margins are possible at ELIL's own retail stores. In case of price drops, ELIL also has to drop the price and is compensated for the same by the dealers.

Improvement in financial performance in FY22 and H1FY23 albeit moderation in profitability margins: The total operating income (TOI) of ELIL increased by 34% y-o-y in FY22 to Rs.615 crore mainly on due to increase in volume sale of mobile phones by 45% y-o-y to 4.83 lakhs and increase in revenue from sale of laptop by 12% y-o-y to Rs.268 crore driven improvement in average selling prices of laptops in FY22 over FY21. The operating margins continue to remain low and range bound owing to trading nature of operations and pre-specified margin range set by the principal. The PBILDT margin moderated by 42 bps in FY22 mainly owing to increase in selling expenditure by 45% in FY22 due to increase in commission/trade discounts attributable to expansion of business and normalisation of demand as covid19 induced demand subsided coupled with some one-time expenditure pertaining to expansion of business in Delhi-NCR region.
Till H1FY23, the company reported total operating income of around Rs. 303.40 crore and PBILDT of 4.60 crore.

Key Rating Weaknesses

Moderation in capital structure and debt protection metrics: The capital structure of the company continued to remain moderate marked by overall gearing of 1.72x as on March 31, 2022 (P.Y.: 1.40x). The overall gearing of the company witnessed marginal moderation in FY22 on the back of increase in total debt level as utilization of working capital limits increased to support the enhanced scale of operation in FY22. Also, largely stable gross cash accruals (GCA) coupled with higher debt levels resulted in moderation of TD/GCA ratio to 22.60 times as on March 31, 2022 from 16.32 times as on March 31, 2021.

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.

Working capital intensive nature of 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 the inventory holding period, thereby making the business working capital intensive. Accordingly, its capital structure remains moderate with a TOL/TNW of 2.65 times as on March 31, 2022 (P.Y.: 2.26x). The operating cycle of the company continued to remain moderate at 41 days in FY22 (P.Y.: 45 days) and consequently its fund-based bank limits utilization continued to remain on higher side and stood at-around 88% during last twelve (12) months ended September, 2022. Going forward, working capital requirement is expected to increase due to increase in scale of operations. Consequently, the company's ability to maintain the current operating cycle and scaling up of operation with current capital structure would be key rating monitorable.

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. Furthermore, sales are primarily skewed in the eastern region (Kolkata, West Bengal) which remains the largest revenue contributor with revenue share of around 53% followed by northern, southern and western regions having revenue share of 38%, 7% and 2% respectively in FY22.

Liquidity: Adequate

The company has adequate liquidity characterized by sufficient cushion in GCA of Rs.2.64 crore vis-à-vis scheduled debt repayment obligations in FY22; supported by current ratio of above unity. Its fund-based bank limits are utilized in the range of 88% during last twelve (12) months ended September, 2022. This apart, the promoters have infused fund of around 0.59 crore as equity share capital in FY22 along with increased in working capital limits by Rs.10.5 crore added cushion to the liquidity position of the company.

Applicable criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Wholesale Trading

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. Currently, the day to day operations of the company are looked after by Mr. Goel along with a team of experienced staffs.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	446.37	614.73	303.35
PBILDT	7.42	7.62	4.59
PAT	2.39	2.51	1.33
Overall gearing (times)	1.40	1.72	1.15
Interest coverage (times)	1.64	1.58	1.82

A: Audited; U/A: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various 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 along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE BBB; Positive
Fund-based - LT-Term Loan	-	-	-	November, 2026	6.78	CARE BBB; Positive

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Positive	-	1)CARE BBB; Stable (31-Dec-21)	1)CARE BBB; Stable (22-Feb-21)	1)CARE BBB; Stable (03-Feb-20)
2	Fund-based - LT-Term Loan	LT	6.78	CARE BBB; Positive	-	1)CARE BBB; Stable (31-Dec-21)	-	-

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

Annexure-4: Complexity level of the 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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: 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 for any clarifications.

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