

Eastern Logica Infoway Limited

December 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	9.77	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities	40.00 (Enhanced from 35.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	49.77 (Rs. Forty-Nine Crore and Seventy-Seven Lakhs Only)		

Details of instruments/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, improvement in financial performance in H1FY22 (refers to the period April 01 to September 30) after moderation in TOI and debt protection metrics in FY21 (refers to the period April 1 to March 31). Further, the company also plans to further expand its operations in northern part of India. The rating, however, is constrained by the low profitability margins due to trading nature of operations, high working capital utilization 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
- Overall gearing below 0.70 times on a sustained basis

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

- Deterioration in the TDGCA levels above 14 times on a sustained basis
- Average utilization of the working capital limits above 95% on a sustained basis

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 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. However, sale of laptops constituted about 53.85% of the total sales of the company in FY21 (PY: 53.77%) followed by sale of mobile about 36% of total sales of the company in FY21 (PY: 32%).

Further, ELIL has also become authorised retailer of Apple for Kolkata and direct retail partner of Oneplus in Oct 2021. FY21 onwards, ELIL has engaged with 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 Rs.19.58 cr in FY20 and Rs. 18.24 cr 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.155 crore in FY21 (~35% 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. Further, 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. For online sales, no risk exists with ELIL as the discount offered

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

by the online portal is borne by the portal itself. Also, there are no inventory off-take requirements and the company gets incentives on achieving a particular volume specified by the principals.

Improvement in financial performance in H1FY22 after moderation in FY21

The total operating income of ELIL declined to Rs.447.03 crore in FY21 from Rs.498.68 crore in FY20 thereby registering a y-o-y decrease of ~10% over FY20. The decline is attributable to decrease in volume of laptops from 91,737 units in FY20 to 70,512 units in 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 improved 51 bps to 1.81% in FY21 (1.30% in FY20) mainly owing to sale of premium products during covid. PBILDT level improved from Rs.6.48 crore in FY20 to Rs.8.07 crore in FY21 on the back of improved demand in FY21. Further, the company reported PAT of Rs. 2.39 cr in FY21 as against PAT of Rs. 1.94 cr in FY20. Till H1FY22, the company reported total operating income of Rs. 275.02 cr and PBILDT of 3.92 cr.

Key Rating Weaknesses

Moderation in capital structure and debt protection metrics

During FY21, the company has availed Covid-19 Emergency Credit Line (CECL) of Rs. 2.95 cr and Guaranteed Emergency Credit Line (GECL) of Rs. 5.30 cr resulting in stepping up of overall gearing to 1.40x as on March 31, 2021 as against 1.02x as on March 31, 2020. Also, TDGCA moderated to 16.32 times as on March 31, 2021 from 12.85 times as on March 31, 2020.

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.

Impact of Covid 19 on ELIL

During the days of COVID induced lockdown, the company has not made any sales from Apr 01, 2021 to mid of May 2021. For the interest portion, the company availed moratorium under the RBI COVID-19 regulatory framework for 6 months, which was then paid off in full by Feb 2021.

When lockdown eased out, the company has experienced pent up demand due to shift from physical to work from home and online classes structure. Post lockdown, product availability was a major issue due to the Covid related restrictions on imports. Therefore, due to shortage of supply of products the company could not fully enjoy the pent-up demand. Also, during covid the company has sold products at prices above the Maximum Operating Price and has therefore secured higher than usual margins on sale of products.

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, sales are primarily skewed in the eastern region (Kolkata, West Bengal) which remains the largest revenue contributor with revenue share of 52.58% followed by northern, southern and western regions having revenue share of 39.64%, 6.05% and 1.73% respectively in FY21.

Liquidity: Adequate

The company has adequate liquidity characterized by sufficient cushion in GCA of Rs.2.71 crore vis-à-vis negligible debt repayment of Rs.0.19 crore (vehicle loan) in FY21. Going forward, the company is expected to generate sufficient cash accruals of Rs. 3.52 cr against debt repayment obligations of Rs.2.49 cr. Out of total repayment of Rs. 2.49 cr, the company has already paid Rs. 1.14 cr till Nov 30, 2021. The average fund-based utilization of the working capital lines remained moderate at ~92% during the last 12 months ended November 2021. Further to support operations, the promoters had infused equity of Rs.1.00 crore in FY20 and Rs.0.60 crore in FY21.

The company stocks inventory for about a month (31 days in FY21) in all its retail outlets. It purchases from a number of dealers receiving up to one month's credit, depending on the type of product and relationship with the dealer and gives a credit of 30-35 days to its customers. There is hardly any stock return to the supplier, as the company liquidates all stock in 30-45 days from the date of buying the same. Similarly, ELIL sells its stock to its customers with no sale return policy. Hence, the management has been maintaining an efficient working capital cycle (45 days in FY21). Operating cycle however elongated from 35 days in FY20 to 45 days in FY21 mainly due to increase in inventory as the company maintained higher inventory due to pent up in demand (from 23 days in FY20 to 31 days in FY21) and average collection days (from 29 days in FY20 to 33 days in FY21).

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook & Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology for 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	498.68	447.03	275.02
PBILDT	6.48	8.07	3.92
PAT	1.94	2.39	1.20
Overall gearing (times)	1.02	1.40	1.32
Interest coverage (times)	1.77	1.79	NA

A: Audited, UA: Unaudited

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: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	FY2025	9.77	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB; Stable	-	1)CARE BBB; Stable (22-Feb-21)	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)
2	Fund-based - LT-Term Loan	LT	9.77	CARE BBB; Stable				

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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