

Eastern Logica Infoway Limited

February 03, 2020

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 instrument/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, established market position with strategically located retail outlets and stable financial performance in FY19 (refers to the period April 1 to March 31) with moderate debt protection metrics.

The rating, however, is constrained by the low profitability margins, regional concentration of sales and fragmented nature of industry with intense competition.

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 with 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. The sales of mobile phones has reduced in the last 2 fiscals (reduced from Rs.298.22 crore in FY18 to Rs.251.82 crore in FY19 and Rs.130.87 crore during H1FY20) as the company has gradually discontinued the mobile whole selling/ distribution business and is focusing more on sales through retailer mode and online mode, yielding higher/ better margins.

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. Further, the company also sells through online platform as well.

Relatively stable financial performance during FY19 with moderate debt coverage indicators

The total sales of ELIL remained almost in line with FY18 at Rs.395.13 crore in FY19 (Rs.399.83 crore in FY18). The operating margins continue to remain low and range bound owing to trading nature of operations and pre-specified margins set by the principal. The PBILDT margin remained in line with FY18 at around 1.51%. Gross Cash Accruals (GCA) however moderated to Rs.1.82 crore in FY19 vis-à-vis Rs.2.04 crore in FY18 due to increased finance charges. Nevertheless GCA remained comfortable vis-à-vis debt repayment of Rs.0.29 crore in FY19.

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

Overall gearing (after adjusting the pledged FD) remained satisfactory at to 0.99 times as on March 31, 2019 (1.00 times as on March 31, 2018). Adjusted Total Debt/GCA however moderated to 13.93 times as on March 31, 2019 as against 11.81 times as on March 31, 2018 due to lower cash accruals in FY19.

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 ~53% followed by northern and southern regions having revenue share of 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.0.47 crore as on March 31, 2019. GCA stood at Rs.1.82 crore in FY19 against debt repayment obligation of Rs.0.10 crore. In FY20, ELIL's debt repayment obligation stands at Rs.0.19 crore. This apart, the company also has FD (pledged as margin) of Rs.5.70 crore as on March 31, 2019. Average Utilization of the CC limit is around ~90% during the past 12 months ended September 2019.

Analytical approach: Standalone

Applicable Criteria

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

[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.130.04 crore in FY19 (representing 33% of the total sales in FY19). 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)	FY18 (A)	FY19 (A)
Total operating income	406.19	401.28
PBILDT	6.15	6.05
PAT	1.72	1.58
Overall gearing (times)	1.00	0.99
Interest coverage (times)	1.95	1.75

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB; Stable	-	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)	-	1)CARE BBB; Stable (14-Mar-17)

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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