Panache Digilife Limited

April 02, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	20.34	**CARE BB+;Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	9.00	**CARE A4+ (A four plus)**	Reaffirmed
Total	**29.34 (Rs. Twenty Nine crore and Thirty Four Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Panache Digilife Limited (PDL; Erstwhile Vardhaman Technology Limited) continue to be constrained by the relatively modest scale of operations and working capital intensive nature of operations. The ratings are further constrained by foreign exchange fluctuation risk and presence in the competitive and fragmented industry with low entry barrier and susceptibility to technological changes.

The ratings continue to derive strength from experienced promoters, association with credit worthy clients although concentrated and wide product range, moderate profit margins, comfortable capital structure and moderate debt coverage indicators.

Ability of PDL to scale up its operation, improve the profit margins amidst increasing competition along and efficient management of working capital requirement are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters: Mr. Nikit Rambhia, Mr. Amit Rambhia and Mr. Devchand Rambhia are the current directors and are associated with the company since its inception. The directors of the company vastly experienced and they are supported by experienced management to carry on day to day operations of the company.

Comfortable capital structure: On account of low reliance on external borrowings, the capital structure of the company stood comfortable for the past three years ending FY17.

Association with credit worthy clients although concentrated and wide product range: PDL offers wide range of products to its customers such as Air PC, Squair PC, Mini PC's, Nano PC's, Panel PC's, Cloud PC & Virtualization, Telematics Solutions, Point Of Sale, AV & LED Display and Television and others. It is constantly developing new innovative products. Further it caters to reputed large corporate customers operating in varied industries including education, Information Technology, eCommerce, etc. However, the top three customers of the company contributed around 63.11% of sales in FY17 (71.95% of sales in FY16), thereby imposing concentration risk and hence higher dependence on few clients to support its scale of operations. However, comfort can be drawn from the fact that due to the long-standing relationship with these clients and long track record of operations, the company has managed to secure continuous orders from them.

Moderate profit margins

The profit margins of the company continue to remain at moderate level marked by PBILDT and PAT margin of 9.28% and 5.57% in FY17 vis-à-vis 7.70% and 2.81% in FY16. Further, the improvement is mainly on account of higher sales realization, lower cost of raw material (contributing ~85.02% of sales in FY17 vis-à-vis 96.02% of

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

sales in FY16) along with lower employee cost due to lower employee's contribution to provident and bonus offered. Furthermore, the company offers wide range of products having broad mix of margins, thus contribution from higher margin products has also led to higher margins during FY17 vis-à-vis FY16.

Moderate debt coverage indicators: PDL's relies heavily on working capital bank borrowings to support the constantly growing scale of operations. However on account of its moderate profitability, its debt coverage indicators stood moderate. Further, the coverage indicators have reasonably improved during FY17 as compared to last year as indicated by interest coverage ratio and total debt to GCA of 3.97x and 2.62x for FY17 respectively vis-à-vis 2.54x and 5.65x for FY16 respectively owing to higher PBILDT leading to higher gross cash accruals.

Key Rating Weaknesses

Relatively modest scale of operations:

The scale of operations continued to remain relatively modest with TOI of Rs.79.51 crore and net worth of Rs.15.19 crore as on March 31, 2017. However, the total operating income of the company has considerably improved during FY17 vis-à-vis FY16 mainly on account of additional revenue generation from its subsidiary operations. Further, the company has already achieved total sales of Rs.48.52 crore till December 31, 2017.

Working capital intensive nature of operations: PDL's nature of business is working capital intensive mainly on account of lower credit period received from its suppliers as well as a requirement to maintain inventory to meet prompt demands. Further PDL needs to provide credit of 45-60 days to its clients after the execution of the work undertaken and receives minimal advances. The same necessitates reliance on high cost external borrowings to meet the funding gap.

Volatility of prices to fluctuations in foreign exchange

The entity imports nearly ~31% of its raw material requirement during FY17 such as microprocessors, motherboards, cabinets, flash disks, rugged power supplies and cabinets from Taiwan, China & Singapore. Further, 99.65% of the sales in FY17 of the entity are in the domestic market thereby resulting in no natural hedge being available and no active hedging practices are adopted by the entity to mitigate foreign exchange fluctuation risk. This exposes the entity to risk of foreign exchange fluctuations affecting its profitability. Thus, PDL has reported foreign exchange loss of Rs.0.05 crore in FY17 and Rs.0.02 crore in FY16.

Presence in competitive industry with low entry barriers

The IT industry is highly competitive with the presence of domestic, global as well as small and midsized IT hardware assembling service providers. Moreover, the IT market has seen significant capacity expansion over the past few years to tap the potential of the growing IT market. The presence of large and small industry players have resulted in an increased competition within the IT industry. Further, the IT industry also remains to be highly cyclic in nature and is vulnerable during the economic slowdown.

Analytical Approach - Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short term ratings]
[Rating Methodology - Service Sector Companies]
[Rating Methodology – Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company

Established in 2000, as a proprietorship concern by Mr. Nikit Rambhia, later reconstituted as private limited company in 2007 and subsequently limited company in 2017, Panache Digilife Limited (PDL; name changed from Vardhaman Technology Limited in January 2017) is engaged in information and communication technology design, manufacturing, distribution & services. The company provides a varied range of IT infrastructure products and embedded solutions. The company has its manufacturing unit situated at Daman with installed capacity of 360,000 computer systems per annum. PDL offers wide range of products namely Air PC, Squair PC, Mini PC's, Nano PC's, Panel PC's, Cloud PC & Virtualization, Telematics Solutions, Point Of Sale, AV & LED Display and Television etc. The company has bagged awards such as Intel IoT Group Partner Performance Award in 2017, Edge Innovation award in 2014 by Information Week, Best System Builder award in 2010, 2011, 2012 & 2013 by CRN, Intel Embedded Hero award in 2012.

The company procures nearly 31% of its raw material requirement during FY17 such as microprocessors, motherboards, cabinets, flash disks, rugged power supplies and cabinets through imports from Taiwan, China & Singapore and rest through domestic market.

The company sells majority of its products ~99.65% of sales in FY17 across PAN India and rest is sold in the international market primarily in Dubai, Iran, Riyadh, Sri Lanka etc.

Further, the company has incorporated a wholly owned subsidiary named Wemart Global FZE in Ajman Free Zone, UAE with effect from November 21, 2016 in order to foray into Middle East market with an aim to expand its global footprint in IT consultancy.

Furthermore, the company has raised funds through fresh issue of shares during FY18 for financing its working capital requirements.

Brief Financials (Rs. crore)	**FY16 (A)^**	**FY17 (A)^^**
Total operating income (TOI)	55.47	79.51
Adjusted TOI	49.84*	79.51
PBILDT	4.27	7.38
PAT	1.56	4.43
Overall gearing (times)	0.92	0.80
Interest coverage (times)	2.54	3.97

*A: Audited ^Standalone^^Consolidated*On account of change in accounting policy whereby the company has decided to record excise duty separately to be in line with the requirements of schedule III of Company’s Act, 2013*

Status of non-cooperation with previous CRA: NIL

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Term Loan	-	-	July, 2018	0.09	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	20.25	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	6.00	CARE A4+
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A4+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.09	CARE BB+; Stable	1)CARE BB+; Stable (28-Apr-17)	-	1)CARE BB+ (18-Feb-16) 2)CARE BB (24-Jun-15)	-
2.	Fund-based - LT-Cash Credit	LT	20.25	CARE BB+; Stable	1)CARE BB+; Stable (28-Apr-17)	-	1)CARE BB+ (18-Feb-16) 2)CARE BB (24-Jun-15)	-
3.	Non-fund-based - ST-BG/LC	ST	6.00	CARE A4+	1)CARE A4+ (28-Apr-17)	-	1)CARE A4+ (18-Feb-16) 2)CARE A4 (24-Jun-15)	-
4.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A4+	1)CARE A4+ (28-Apr-17)	-	1)CARE A4+ (18-Feb-16) 2)CARE A4 (24-Jun-15)	-

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