

Rashi Peripherals Private Limited

April 06, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	507.70 (Increased from Rs.487.70 crore)	CARE A-; Negative [Single A Minus; Outlook: Negative]	Rating reaffirmed and outlook revised from stable
Short-term Bank Facilities	8.00	CARE A2 [A Two]	Reaffirmed
Total Facilities	515.70 (Rupees Five hundred fifteen crore and seventy lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to facilities of Rashi Peripherals Private Limited (RPL), derives strength from the experienced promoters having established pan India distributorship of various IT products, supply relationships with various established MNC brands, and channel partners, and effective foreign exchange fluctuation risk management.

The ratings, however, are constrained by loss of business due to exit of Apple from the company's portfolio, thin operating margins, working capital intensive business, leveraged capital structure; albeit healthy coverage ratios and negative impact on sales in retail channel due to Novel Coronavirus lockdown.

Rating Sensitivities

Positive Factors

- Overall Gearing below 1.35x on sustained basis
- Current Ratio more than 1.50x on sustained basis
- Operating cycle less than 30 days on sustained basis

Negative Factors

- PBILDT margin falling below 1.50%
- Increase in Operating Cycle to more than 60 days
- Decline in the Net Working Capital to Total Current Assets ratio to less than 20 percent, on sustained basis

Outlook: Negative

The negative outlook factors in the increase in operating cycle by 12 days to 40 days in FY19 versus 28 days in FY18, due to increase in collection period by 13 days, average working capital utilization of around 90% during 12 months ended December 2019, and the expected slowdown in sales of IT products in retail channel during 2020 due to Novel Coronavirus lockdown.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters coupled with established position in the IT product distribution industry

RPL was incorporated by Mr. Krishna Kumar Choudhary, B.Com, FCA and Mr. Suresh Pansari, B.Com, FCA, in 1989. RPL operates across 5 business verticals namely: Mobile, PCs, PC components, Peripherals, and Enterprise/Networks. The ownership is closely held by the promoters and their family members and Mr. Kapal S. Pansari, son of Mr. Suresh Pansari has also joined the business and is actively involved in the operations of the company.

Long standing relationships with a various established brands and channel partners

RPL has successfully maintained strong vendor profile with significant vendor additions in the recent past. These vendors have monthly and quarterly targets to be met by RPL. Further, in case of products becoming obsolete due to introduction of new product versions, the vendors support the company with price discounts which are passed to end user to liquidate the inventory. The gross profit margin ranges between 4-5%.

In terms of product concentration, mobile phones contributed around 22% of the total sales in FY19, followed by PC components (20%), PCs (28%), Peripherals & Accessories (26%) and Enterprise, Networks & Others (4%). During FY20, the contribution of mobiles

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

to overall business dropped to nil due to exit of Apple from distributorship. RPL typically enjoys circa one month of credit term from its suppliers, which reflects that it has reasonable amount of negotiating power, in its business.

Wider geographical reach because of the main customers being major retail outlets and e-commerce players

Top 10 customers include Appario, Flipkart, Bluecom Infotech, Infiniti Retail Limited (Croma) and other retailers who are also listed as sellers on ecommerce platforms. Overall, the company has a pan-India network of over 50 branches and warehouses, and 9000+ channel partners. Also, RPL has an employee base of circa 1000, as on March 31, 2020.

Effective foreign exchange fluctuations risk management

Around 45% of purchases are done through imports, hence the company is exposed to foreign exchange fluctuations. The company hedges against this risk as it gets price protection from its principal vendors, due to which any price changes can be passed on to the customers without affecting its operating margins. Moreover, Rashi hedges any net foreign currency exposures arising from import of products, by entering into forward contracts. The forex losses incurred on finance costs improved from Rs.0.92 crore in FY18 to Rs.0.16 crore in FY19.

Key Rating Weaknesses

Reduced sales and profits due to Apple's exit

From FY14 to FY18, RPL has reported a CAGR growth of 19% in Total Operating Income (TOI). However, due to distributorship withdrawal by Apple in second half of FY19, TOI reduced to Rs.3,990 crore during FY19 from Rs.4,415cr in FY18, i.e. a decrease of around 10%. In line with decreased sales, PBILDT reduced marginally on y-o-y basis to Rs.62 crore during FY19 from Rs.68 crore during FY18. Moreover, PAT has reduced on y-o-y basis to Rs.29 crore during FY19 from Rs.36 crore in FY18. Being a trading concern, RPL has a low PBILDT margin of 1.56% in FY19, as compared to 1.54% in FY18. With the growth in scalability and sales, and defraying of fixed cost over a larger base, the profit margins are expected to improve and reach to levels of around 1.85%.

Thin operating margins due to trading nature of business and highly competitive market conditions

The value addition is low as RPL is a distributor of established MNC brands, and its thin operating margins are dependent on holding large inventory for retail channel, and providing credit terms of upto 90 days to them. The business is highly competitive due to presence of large format retail stores (like Vijay Sales, Kohinoor etc.), and strengthening presence of ecommerce platform.

Working capital intensive business

RPL buys IT products from manufacturers with credit terms of around one month and sells to Trade Channel on credit terms upto 90 days. It needs bank limits to finance the inventory holding period, and the collection period from buyers. It has a low margin, high volume business, which is working capital intensive. The average utilization of fund based working capital limits has been around 90% for the last 12 months ending December 2019. The average collection period increased by 13 days on y-o-y basis to 42 days in FY19 (vs PY: 29 days) and the inventory period stood at 33 days in FY19 (vs PY: 30 days), resulting in an increased working capital cycle of 40 days during FY19 (vs PY: 28 days). The Net Working Capital to Total Current Assets ratio was stable on y-o-y basis and stood at 20% as at the end of FY19 (vs PY: 20%). Bad debts for FY19 stood stable on y-o-y basis at a nominal level of Rs.0.55 crore.

Impact of Novel Coronavirus

On account of Coronavirus lockdown since third week of March 2020, large segments of the population are remaining quarantined at home, with many of them unable to work and earn a paycheck. Moreover, there has been a total shut down of retail channels all across India and many of the electronic stores are closed, impacting sales of electronic products in an adverse manner.

Liquidity Analysis: Adequate

RPL had an unencumbered cash and bank balance of Rs.0.31cr as on March 31, 2019. The working capital limits have been utilized to the extent of 89% in the last 12 months ending December 2019. GCA during FY19 was Rs.31 crore (vs PY: Rs.38 crore). Unsecured long term loans from directors and related parties stood at Rs.8.55 crore as on March 31, 2019 (vs PY: Rs.10.73 crore). The company has no substantial capital expenditure plan in the coming future.

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 Instruments](#)

[Financial ratios – Non-Financial Sector](#)
[CARE's methodology for manufacturing companies](#)
[Rating Methodology – Wholesale Trading](#)

About the Company

Rashi Peripherals Private Limited (RPL) was incorporated in 1989, by Mr. Krishna Choudhary (B.Com, FCA) and Mr. Suresh Pansari (B.Com FCA). The promoters have an experience of 3 decades in the Information Technology Distribution business. RPL is one of the 5 largest IT Distributors in India engaged in the business of Information Technology Product Distribution and after sales services of information technology products. RPL has partnered with over 9000+ dealers and retailers in over 750 towns and cities. Major vendors of RPL include many world renowned like San Disk, Lenovo, HP, Dell, Asus, etc. The company does not have any exclusivity agreements with any brands.

Further, RPL owns 20% stake in a company Rashi Peripherals Pte Singapore, which is in the same line of business but has low turnover of around 4-5 million dollars. As it is not a subsidiary, consolidated financials are not prepared.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	4415	3990
PBILDT	68	62
PAT	36	29
Overall gearing (times)	2.02	1.87
Interest coverage (times)	5.05	3.49

A: Audited

Status of non-cooperation with previous CRA: No

Any Other information: No

Rating History (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-Long Term	-	-	-	507.70	CARE A-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	CARE A2

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-Long Term	LT	507.70	CARE A-; Negative	1)CARE A-; Stable (05-Apr-19)	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A2	1)CARE A2 (05-Apr-19)	-	-	-

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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