

Rashi Peripherals Private Limited
September 09, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	507.70	CARE A-; Stable (Single A Minus; Outlook: Stable)	Rating reaffirmed and outlook revised from negative
Short Term Bank Facilities	8.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	515.70 (Rs. Five Hundred Fifteen Crore and Seventy Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Rashi Peripherals Private Limited (RPL), continue to derive strength from the experienced promoters having established position in the IT product distribution industry, long standing relationships with various established brands and channel partners, wide geographic reach, effective foreign exchange risk management and sharp growth witnessed from its IT products (PC and servers) thereby offsetting revenue loss from discontinuation of sale of Apple products.

The ratings, however, are constrained by, thin operating margins due to trading nature of business and highly competitive market conditions, working capital intensive business, leveraged capital structure.

Rating Sensitivities*Positive Factors*

- Operating cycle less than 30 days on sustained basis.
- Total debt to GCA of less than 2.5 x on sustained basis
- PBILDT/ Interest coverage more than 6 times on sustained basis

Negative Factors

- PBILDT margin falling below 1.5% on a sustained basis.
- ROCE falling below 14% on a sustained basis.
- Gross working capital cycle more than 90 days

Outlook: Stable

The revision in outlook from negative to stable takes in to account improvement in PBILDT margin, PAT margins and coverage indicators in FY20 and Q1FY21. Further, led by sharp growth witnessed from its IT products (PC and servers), RPL has been able to offset revenue loss from discontinuation of sale of Apple products. The total operating income of the company during Q1FY21 remained stable despite complete lock down in April 2020 with negligible sales in April 2020. The revision also factors in improvement in month on month sales, during April - 2020 to July - 2020, and moderation in utilization of working capital limits as a result of improved collection efficiency.

Detailed description of the key rating drivers**Key Rating Strengths*****Experienced promoters coupled with established position in the IT product distribution industry***

RPL promoted by Mr. Krishna Kumar Choudhary, B.Com, FCA and Mr. Suresh Pansari, B.Com, FCA, in 1989. RPL's promoters are in to the business of almost 3 decades in the industry and have an established position in the Indian IT product distribution sector, being one of the largest distributors of IT products in India. 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. RPL operates across five business verticals

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

namely: components, peripherals, and personal-computing, mobile / smartphones and market verticals such as: retail, online and enterprise.

Long standing relationships with a variety of 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 upgraded products, the vendors extend full vendor support to the company. RPL does not have exclusivity agreements with most of its brands, however, some agreements do exist with specific brands in certain geographies. The gross profit margin ranges between 4-5%.

In terms of product concentration, PCs contributed around 47% of the total sales in FY20 (FY19: 28%). The drop in proportion of mobile phone sales was because a substantial chunk of the mobile phone sales used to come from Apple, which has now been completely phased out. However, led by higher growth of its PC and servers the company has been able to offset loss of revenue from discontinuation of business from Apple products. Further, the company is working towards expansion of its portfolio in both mobile phone and IT segment, by venturing into new brands, this is further expected to improve sales going ahead.

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. Consequent long standing existence of the company in to distribution of IT products along with significant chunk of sales coming from ecommerce players RPL has wider geographical reach.

As a result of sharp growth witnessed from its IT products (PC and servers), RPL has been able to offset revenue loss from discontinuation of sale of Apple products.

From FY14 to FY18, RPL 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.3925 crore during FY20 from Rs.4417 crore in FY18. However, as a result of sharp growth witnessed from its IT products (PC and servers), RPL has been able to offset revenue loss from discontinuation of sale of Apple products. Furthermore, led by change in product mix coupled with higher early payment incentive, RPL's PBILDT margin improved to 2.42% during FY20, as compared to 2.11% in FY19.

Effective foreign exchange fluctuations risk management

Around 50% of purchases of the company are imports hence the company faces risk from foreign exchange fluctuations. The company has a natural hedge against this risk as it gets complete 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 increased from Rs.0.16 crore in FY19 to Rs.1.65 crore in FY20.

Key Rating Weaknesses

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

Due to low value additive nature of the IT distribution business, the profitability of RPL continues to remain thin. However, led by change in product mix coupled with higher early payment incentive, RPL's PBILDT margin improved to 2.42% during FY20, as compared to 2.11% in FY19.

Working capital intensive business; albeit moderation was witnessed in utilisation of working capital facility due to improved collection efficiency

RPL buys IT products from manufacturers on CAD basis and sells to Trade Channel on credit terms. It needs bank limits to finance the inventory holding period, and the collection period to buyers, thereby making the business working capital intensive.

RPL used to offer about 10-15 days of credit on sale of Apple products while it offers about 45 days on other products. However, despite decrease in apple sales from 20% in FY19 to nil in FY20, the average collection period has remained

stable at FY19 levels, indicating improvement in collection efficiency. Some of the key initiatives taken by company to improve collections efficiency include increased frequency of its sales meeting, implementation of SAP etc., which provides an access to real-time data thus helping it improve collection efficiency. The average utilization of working capital limits improved to 81% for the last 12 months ending July 2020 (vs 89% during 12 months ending December 2019). Further, RPL was able to avail higher early payment incentive of around Rs.27 crore from vendors during FY20, as compared to Rs.21 crore during FY19 indicating improved collection efficiency. During the lock down period also, average utilization of its working capital facilities has remained on the declining trend, while the sales continued to remain on improving trend indicating improved collection efficiency.

Leveraged capital structure

Overall gearing ratio and total outside liabilities to net worth has improved to 1.36x (vs 1.87x as on March 31, 2019) and 3.34x (vs 3.89x as on March 31, 2019) as on March 31, 2020, on account of decreased borrowing during FY20 end due to subdued sales on account of Covid-19 lockdown, however, the same continued to remain high. Moreover, the interest coverage ratio improved to 2.57x during FY20 (vs PY: 2.19x) on account of increased PBILDT on back of new brands' addition to the product portfolio, which yielded better margins than previously sold products, coupled with increased early payment incentive availed from vendors.

Impact of coronavirus and industry prospects

Worldwide IT spending is projected to total \$3.40 trillion in 2020, a decline of 8% over FY19. The coronavirus pandemic and effects of the global economic recession are causing CIOs to prioritize spending on technology and services that are deemed "mission-critical" over initiatives aimed at growth or transformation. As the COVID-19 pandemic continues to spur remote working, sub segments such as public cloud services will be a bright spot in the forecast, growing 19% in 2020. Cloud-based telephony and messaging and cloud-based conferencing will also see high levels of spending growing 8.9% and 24.3%, respectively. In 2020, some longer-term cloud-based transformational projects may be put on hiatus, but the overall cloud spending levels being projected for 2023 and 2024, will now be showing up as early as 2022.

Liquidity Analysis: Adequate

RPL had an unencumbered cash and bank balance of Rs.0.40 crore as on June 30, 2020 and Rs.4.50 crore as on March 31, 2020. The working capital limits have been utilized to the extent of 81% in the past 12 months ending July 2020. GCA during FY20 was Rs.44 crore (PY: Rs.31 crore) During FY20, there was a positive cash flow from operation of Rs.49 crore (vs PY: Rs.-27 crore). Being a trading concern, the company has no additional capital expenditures expected in the future also the company has no scheduled repayment of term loan in the near term. The interest coverage ratio was at 2.57x (PY: 2.19x) and current ratio stood at 1.27x (PY: 1.23x) at the end of FY20.

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: Consolidation and Factoring Linkages in Ratings](#)

[CARE's policy: Liquidity Analysis of Non-Financial Sector Entities](#)

[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 names in the IT industry, like Apple, 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)	FY19 (A)	FY20 (A)
Total operating income	3,992	3,925
PBILDT	84	95
PAT	29	42
Overall gearing (times)	1.87	1.36
Interest coverage (times)	2.19	2.57

A: Audited

*Financials for past years have been revised for the purpose of better analysis. Pre-payment incentive received from vendor is now adjusted in cost of goods sold rather than being adjusted in finance cost (old approach). Consequently, a truer and fairer picture of PBILDT and interest expense is depicted.

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-Long Term	-	-	-	507.70	CARE A-; Stable
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	507.70	CARE A-; Stable	1)CARE A-; Negative (06-Apr-20)	1)CARE A-; Stable (05-Apr-19)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A2	1)CARE A2 (06-Apr-20)	1)CARE A2 (05-Apr-19)	-	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

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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About CARE Ratings:

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