MAY 10, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF SALORA INTERNATIONAL LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	60.00	CARE BBB- (Triple B Minus)	Reaffirmed
Short term Bank Facilities	15.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**75.00 (Rupees Seventy five crore only)**		

Rating Rationale

The ratings continue to derive strength from Salora International Limited's (SIL) experienced management, long track record in the consumer electronics and mobile distribution industry and a wide distribution and service network of the company. The ratings factor in the management strategy of diversifying its online distribution network and focus on its own brand of mobile phone handsets and LED TVs. Furthermore, SIL has a healthy net worth base resulting in a comfortable capital structure and moderate coverage indicators.

The ratings, however, continue to remain constrained by high working capital intensity of operations with relatively large debtor levels and low profitability margins, high level of competition in the distribution business, inherent risk related to trading industry including reliance on third party supplier for products, exposure to forex risks and relatively lower visibility of 'Salora' brand at present in mobile handset segment.

Going forward, the ability of SIL to increase brand visibility, improve profitability margins amidst changing consumer preference and high degree of competition, speeding recovery of debtors overdue for more than six months while efficiently managing working capital requirements shall be the key rating sensitivity.

Background

SIL was promoted in year 1977 by Mr S R Jiwarajka and Mr Obel Reddy. The company was earlier engaged in manufacturing of Television and television components along with trading in mobile phones, laptops, tablets, 3G data cards, multimedia speakers and other IT products of various brands. Presently, with discontinuance of loss making IT distribution business, the company is primarily engaged in trading and distribution of mobile phones under its own brands, 'Salora' and 'Arya' and under brands of Samsung, Apple, Sony and Intex. The company is also engaged in distribution of Lifestyle and Household products under its own brand name Q'bon through its alliance with Japanese brand 'Zojirushi' and German brand 'Nachtmann' since FY13 (refers to the period April 1 to March 31). Alongside, SIL's operations are diversified into wind power generation since year 2006 for which company has a 6.25 MW (5X 1.25 MW) capacity power plant at Dhule, Maharashtra. SIL's manufacturing facility is located in Noida (UP) and is ISO 9001:2008, IEC65 & ISO 14001 certified. During FY15, Infocom division contributed around 85% to total revenue, Consumer

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

Electronics Division (CED) contributed around 14% while wind energy segment contributed around 1% to total revenue of FY15 (refers to the April 1 to March 31).

During FY16, has expanded its manufacturing facilities at Noida for production of mobile phone handsets under its own brand and also LED Televisions sets, with a total installed capacity of 300 LED TVs per day and 2500 handsets per day as on March 31, 2016.

During FY15 (refers to the period April 1 to March 31), SIL registered a total income of Rs.295.94 crore (P.Y: Rs.396.26 crore) with PAT of Rs.0.36 crore (P.Y: Rs.1.52 crore). During 9MFY16 (refers to the period April 1 to Dec 31), SIL registered a total income of Rs.231.79 crore (P.Y: Rs.208.87 crore) with net loss of Rs.0.48 crore (net loss of Rs.0.29 crore).

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

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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CIN - L67190MH1993PLC071691