Salora International Limited

April 19, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	60	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed**
Short-term Bank Facilities	15	**CARE A3 (A Three)**	**Reaffirmed**
Total	**75 (Rupees Seventy Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

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 adequate liquidity as reflected by moderate working capital utilisation levels.

The ratings, however, continue to remain constrained by large legacy debtors, moderate coverage indicators due to 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.

Outlook: Negative

The outlook is 'Negative' in view of the losses during FY16 (refers to the period April 1 to March 31) and impact on income and profitability during Q3FY17 upon demonetization. The outlook may be revised to 'Stable' if SIL is able to restore its income and profitability and thereby improve its coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

SIL has a long track record of operations of more than three decades. Currently, the company is being run by second and third generation of the Jiwarajka family. Mr GK Jiwarajka (Managing Director) has around 16 years of experience in television manufacturing, assembling, telecom and related fields. He is supported by qualified and experienced management team. SIL became a public listed company in 1993, and is listed on both National Stock Exchange and Bombay Stock Exchange. SIL's manufacturing facility is located in Noida and is ISO 9001:2008, IEC65 & ISO 14001 certified.

Strong distribution and service network

SIL has a wide network of 28 branch offices across India and 200 service tie-up/networks in 127 cities, involving 500 dealers and distributors. SIL uses its pan-India sales and service operations for distributing own SALORA brand TV/LCD, home theatre, mobile and tablets and also provides distribution and after sales services for range of products like mobiles, data cards, etc, for other national and international brands. SIL also supplies TV parts to companies like Videocon, Samsung and LG. In addition to these, the company is also engaged in the distribution of Lifestyle & Household

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

products like crockery, flasks, bottles, etc through its alliance with a Japanese brand “Zojirushi” and German brand “Nachtmann”.

Furthermore, the company has taken various measures to de-risk its business during the year. As against primarily engaging in distribution of mobile phones of Samsung and Sony Ericson and relying on few e-retailers such as Amazon and Flipkart, the company has since FY16 tied up multiple retailers (nearly 10 online retailers) including Amazon, Flipkart, Paytm, Snapdeal, Shopclues, etc, which has affectively reduced the concentration risk with a single vendor as well as increase product salability for SIL. Inclusion of other brands (e.g. Apple, Xiomee, RedMI, OnePlus, Micromax, Intex, HTC, Lenovo, etc.) apart from Samsung & Song Ericson in its portfolio of products has also helped broaden its product range. Further the company has shifted its strategy to focused distribution in 6-7 states (particularly UP and Uttarakhand) as against 12 states earlier to concentrate its energies on limited distributors.

Focus on Salora Brand

Majority of the company’s total operating income comes from distribution business of various brands, which is primarily trading in nature. SIL is now focusing more on its own brand and widening its product portfolio. SIL has started manufacturing LCD and LED television under SALORA brand from FY15 onwards while increasing the product range gradually and is also focusing on mobiles (primarily low to mid-level segment) under its own brand; and will also be launching its smart phone under brands ‘Salora’ and ‘Arya’. Salora Brand contributes approximately 15% of the income and entails higher margins as against the trading operations. Going forward, the company plans to leverage on its wide distribution network and increase its products and visibility in the market and intends to increase the contribution of the Salora brand by launching new products under the Salora brand and increasing the visibility in the market.

Comfortable capital structure and adequate liquidity

SIL continues to maintain a strong net-worth of Rs.112.65 crore; with the total debt outstanding consisting primarily of working capital term debt. The long term debt-equity and overall gearing continues to stay comfortable at 0.05x and 0.35x as on March 31, 2016. A high net worth base also ensures moderate working capital utilisation (84% average utilisation for 12 months ending December 2016) resulting in adequate liquidity buffer. Also, the promoters have infused funds through equity infusion and unsecured loans as and when required.

Key Rating Weaknesses

Moderate financial risk profile

The company’s operations are marked by the low profitability and moderate coverage indicators. The total operating income of SIL, increased by 5.78% to Rs.313.04 crore during FY16. Although, the Infocom Division, saw a growth in sales by 12.5% during FY16 (with PBIT Margins being maintained at similar levels of 2.96% during FY16, the overall income and profitability of the company were impacted due to sluggish demand and weak market for the company’s established product of CRT TV’s and their components as the consumer preference moved towards LED TVs resulting in 43% decline in revenue to Rs.22.94 crore in the CED segment during FY16 resulting in PBIT losses of Rs.0.39 crore as against profit of Rs.0.98 crore during FY15 in this segment. The company has thus launched several new products in LED TV to counter the declining demand for the CRT TVs. Consequently, SIL reported PBILDT Margins of 2.32% during FY16 (P.Y. 3.11%) which resulted in moderation of the interest coverage to 1.16 times (P.Y: 1.63 times) in FY16. The profitability of the company continues to be moderate given the operations entail primarily trading and distribution or assembly of components. The Total Debt/Gross Cash Accruals was higher at 35.38 times as on March 31, 2016, as against 12.18 times as on March 31, 2015, despite lower debt outstanding as on March 31, 2016.

Also, given the working capital intensive nature of operations, the interest cost outlay of the company remains high at Rs.6.25 crore during FY16 (P.Y. Rs.5.64 crore), leading to net loss of Rs.0.87 crore in FY16 as against PAT of Rs.0.36 crore during FY15.

The profitability and the coverage indicators have however improved during 9MFY17 with 15% growth in income over the previous period and recognition of net income of Rs.2.84 crore upon maturity of insurance. This has been despite the muted performance during Q3FY17 wherein the sales and profitability were impacted due to announcement of demonetization given that nearly 60% of online sales of the company are on COD (Cash on Delivery basis).

Working capital intensive nature of operations

The operations of the company are highly working capital intensive primarily marked by high collection period due to high credit period in distribution business. SIL gets discounts on bulk purchases from its vendors, which extend a credit period of 30-50 days. Owing to the trading nature and the scale involved, the business requires maintaining high finished goods inventory. This coupled with extremely low profitability makes the operations highly working capital intensive with moderately average fund-based working capital limits utilization level of 83.55% for the 12-month period ended January 2017. *Furthermore, debtors more than six months still stood at Rs.44.32 crore as on March 31, 2016 (Rs.43.83 crore as on March 31, 2015), their timely resolution and recovery remains crucial.* However, the company has taken various measures to accelerate recovery by focussing on key distributors in 6-7 geographies thereby consolidating and improving the quality of its customers. Furthermore, the company is now extending lower credit period of 30-45 days only in its CED segment while trying to transition to cash and carry model for mobile phones. Consequently, debtors o/s <6 months have reduced to Rs.21 crore as on February 28, 2017 as against Rs.36.69 crore as on March 31, 2016, resulting in considerable savings in working capital.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology - Wholesale Trading](#)
[Financial ratios – Non-Financial Sector](#)

About the Company
Chandigarh Distillers & Bottlers Ltd. (CDBL) was promoted by Mr Suresh Kumar Modi and his son Mr Amit Kumar Modi in April 1986 as a private limited company. The company was converted into a public limited company in 1992.
CDBL is engaged in manufacture of Rectified Spirit (RS), Extra Neutral Alcohol (ENA), Industrial Alcohol (IA) and Denatured spirits (DS) with an installed capacity of 1,08,900 KL of RS per annum, as on March 31, 2016. The company is also engaged in sale of own brands of Country Liquor. In 1992, CDBL entered into a licensing arrangement with United Spirits Ltd. (USL) to manufacture various McDowell brands of IMFL which was renewed in May 2014. The agreement with USL has been amended into a bottling lease agreement effective April 1, 2012. The bottling agreement is valid upto June 30, 2020.
During FY16 (refers to the period April 1 to March 31), CDBL reported the total income of Rs.515.53 crore (P.Y: Rs.538.73 crore) with PAT of Rs.13.57 crore (P.Y: Rs.11.35 crore). During 9MFY17 (provisional- refers to the period April 1 to December 31), CDBL has registered a total income of Rs.401.89 crore with PAT of Rs.10.31 crore.
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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.*

Analyst Contact:
Name: Mr Gaurav Dixit
Tel: 011-45333235
Mobile: 9717070079
Email: gaurav.dixit@careratings.com

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Disclaimer

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
Term Loan-Long Term	-	-	Aug-2025	33.20	CARE BBB+; Stable
Fund-based-Long Term	-	-	-	20.00	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 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.	Term Loan-Long Term	LT	33.20	CARE BBB+; Stable	-	1)CARE A- (10-May-16)	1)CARE A (28-Apr-15)	1)CARE A (15-Apr-14)
2.	Fund-based-Long Term	LT	20.00	CARE BBB+; Stable	-	1)CARE A- (10-May-16)	1)CARE A (28-Apr-15)	1)CARE A (15-Apr-14)

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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