Salora International Limited

August 08, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	60.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short-term Bank Facilities	15.00	**CARE A4+ [A Four Plus]**	Revised from CARE A3 (A Three)
Total Facilities	**75.00 (Rupees Seventy Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Salora International Limited (SIL) factors in lower than envisaged operational performance of the company during FY17 (refers to the period April 1 to March 31) marked by deterioration in operating margins and losses at the net level resulting in weakening of its debt coverage indicators. The ratings continues to be constrained by high level of competition in the electronics distribution business, inherent risk in trading industry including low margins and reliance on third party supplier for products and relatively lower visibility of 'Salora' brand at present in mobile handset segment. The ratings, however, continue to factor in experienced management, long track record in the consumer electronics industry and its comfortable gearing.

The ratings also take cognizance of the management's strategy of diversifying its physical distribution network and rekindled focus on its own brand of mobile phone handsets, home theater systems and LED TVs.

Going forward, the ability of SIL to report a sustained turnaround in its operational performance amid competition and effectively manage its working capital cycle shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Subdued operational performance and weakening of debt coverage indicators: Though SIL reported marginal growth in its Total Operating Income during FY17, the operating profit margin deteriorated owing to shrinkage in traded margins in its infocom division and write-off of bad debts. PBILDT margin declined to 4.44% during FY17 (PY: 7.27%). The same coupled with higher interest cost led to higher net loss of 0.43% during FY17 (PY: 0.28%). The deterioration in operating profit margins coupled with increasing debt level has resulted in weakening of debt coverage indicators as reflected by interest coverage of 0.64x during FY17 (PY: 1.16x).

Elongated operating cycle: The operations of the company are highly working capital intensive primarily marked by elongated collection period due to high credit period in distribution business. Owing to the trading nature and the scale involved, the business requires maintaining high inventory. Furthermore, debtors more than six months stood high at Rs.43.87 crore as on March 31, 2017 (Rs.44.31 crore as on March 31, 2016). The average CC utilization for trailing twelve months ended June 2017 remained high at 83.19%. However, SIL continues to maintain a strong net-worth of Rs.111.35 crore as on March 31, 2017 resulting in comfortable gearing of 0.51x as on March 31, 2017 (PY: 0.34x).

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. 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.

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

Strong distribution and service network and rekindled focus on Salora brand: SIL has a wide network of 28 branch offices across India in 13 states and 200 service tie-up/networks in 127 cities, involving more than 500 dealers and distributors. SIL uses its pan-India sales and service operations for distributing its SALORA brand TVs (CRT, LCD and LED), TV components, lifestyle & household products like home theatre systems, mobile etc. SIL also provides distribution and after sales services for range of products like mobiles, data cards, etc., for other national and international brands. The company plans to launch new products under the Salora brand and increase visibility in the market. Going forward, its ability to profitably scale up its mobile and TV business would remain crucial for its credit profile.

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
Salora International Limited (SIL) is currently engaged into trading and manufacturing of mobile handsets and televisions. The company operates in three primary segments viz. Info-com division (Trading and distribution of mobile and IT products of renowned brands through online channel and assembly and distribution of Salora mobiles through a pan India distribution network of more than 600 dealers), Consumer Electronics Division (CED; manufacturing/assembly of LED TVs/CRT TVs and its components under own brand names 'Salora' and 'Arya') and wind energy segment (6.25 MW (5X 1.25 MW) capacity at Dhule, Maharashtra commenced in year 2006) each of which contributed around 96%, 3%, 1% of the total revenue of FY17.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	313.04	324.50
PBILDT	7.27	4.44
PAT	(0.87)	(1.39)
Overall gearing (times)	0.05	0.06
Interest coverage (times)	1.16	0.64

A: Audited

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.*

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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-Cash Credit	-	-	-	60.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	15.00	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-Cash Credit	LT	60.00	CARE BB+; Stable	1)CARE BBB-; Negative (19-Apr-17)	1)CARE BBB- (10-May-16)	-	1)CARE BBB- (09-Jan-15)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A4+	1)CARE A3 (19-Apr-17)	1)CARE A3 (10-May-16)	-	1)CARE A3 (09-Jan-15)

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