

Supertron Electronics Private Limited
November 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	310.00	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	196.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	506.00 (Rs. Five Hundred Six Crore Only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Supertron Electronics Private Limited (SEPL) continue to derive strength from the experienced promoter, long association with reputed principals, established market position in domestic IT distribution industry, widespread geographical distribution network with strong presence in Tier-II and Tier-III cities and making inroads in Tier-IV towns/cities with a well-diversified mix of product offerings, low inventory obsolescence risk and satisfactory financial performance of the company during FY20 (refers to the period from April 1 to March 31) and H1FY21 (refers to the period from April 1 to September 30) with moderate debt coverage indicators.

The rating is however constrained by principal concentration risk, low profitability levels, forex fluctuation risk and intense competition in the IT hardware distribution business.

Key Rating Sensitivities**Positive Factors**

- Sustained improvement in the operating margins beyond 3%.
- Maintaining the operating cycle less than 30 days on sustained basis.

Negative Factors

- Moderation in the operating margins below 2% on a sustainable basis.
- Increase in working capital intensity (utilization > 90%) leading to weakening of liquidity position.
- Deterioration in the capital structure (overall gearing ratio > 2.5 times) on a sustained basis.

Outlook: Positive

The outlook on the long term rating has been revised from 'Stable' to 'Positive' on account of favorable demand outlook for the IT services industry and expected improvement in the financial performance in the ensuing period. The revision also factors in the likely improvement in the profitability margin pursuant to the advancement of the Value Added Distributorship (VAD) division of the company coupled with improvement in the operating cycle leading to healthier liquidity indicators.

The outlook shall be revised to 'Stable' if the company is unable to earn the envisaged margins or there is moderation in the liquidity indicators from the current levels.

Detailed description of the key rating drivers**Key Rating Strengths*****Long track record of operations along with experienced and established promoter group***

SEPL was incorporated in 1993 and has a long and established track record of trading operations of over two decades. The long track record of its operations has enabled the company to establish a strong distribution and marketing network across India, which has led to addition of new principals along with newer product profiles in its distribution portfolio. Currently, the company is looked after by Mr. V.K.Bhandari, who has more than two decades of operational experience and maintained long term relationship with their principals and customers.

Established relationships with reputed principals along with diversified product portfolio

The diversified network of the company and long experience of the promoters has facilitated SEPL to establish relationships with reputed brands and deal in more than 50 diverse IT product categories. SEPL has throughout maintained long term relationships with its suppliers including Dell, Seagate, Acer with which it has been associated for more than a decade.

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

Established market position & widespread geographical distribution with strong presence in Tier-II & Tier-III cities and making inroads in Tier-IV towns/cities

SEPL has a well-established position in the computer peripherals distribution business backed by the long-term association with suppliers and wide distribution network across the country. It has a strong distribution network comprising around 11,900 registered channel partners through 36 branches and 30 satellite spread across 950 towns/cities. Moreover, the company is consciously increasing its presence in the Tier-II and Tier-III cities through adding channel partners in such region thus allowing it to attain exclusive contracts from suppliers which has an emphasized focus in these markets. SEPL has also undertaken initiatives by opening satellite branches to cater the remote markets of the country and has also established a Value Added Distributorship (VAD) division during FY19 to provide end to end services/bundled services to the consumers on a Pan-India basis (from providing hardware to installation/ setup) on behalf of principals like Cybernetyx, G&G, Braco, Pelco etc. where the company is earning better margins on such services.

The southern region remained the largest revenue contributor with revenue share of ~32% followed by northern region, western and eastern region with ~29%, ~27% and ~13% share respectively during FY20.

Low inventory obsolesce/price risk

The electronics industry in India faces high price volatility risk as products are exposed to various factors including changing market demand and a volatile rupee. However, such risk are mitigated since SEPL have a price protection clause included in their contract with the principals, wherein the principal may either reimburse SEPL in cash or adjust the change in the form of a credit note which can be used for future purchases from the supplier. Further, in case of product which remains unsold by the resellers on account of defect or obsolescence, the same are directly returned to the principals by the resellers, thus reducing the liability of SEPL.

Satisfactory financial performance during FY20 and H1FY21

The total sales of SEPL registered a y-o-y growth of 5.96% in FY20 to Rs.3,615.79 crore mainly on account of increase in the sale of Lenovo products (~73%y-o-y) attributable to grant of exclusive distributorship (AMD notebooks) during FY20 coupled with addition of other new business tie ups. The operating margin is low and range bound owing to the trading nature of operations and pre-specified margins set by the principal. The PBILDT margin moderated by 41bps to 1.96% in FY20 due to increase in employee costs and brand promotion expenses. Turnover and profitability was further impacted due to loss in sales during the last week of March 2020 incidental to the pan-India lockdown to curb the outbreak of Covid-19 pandemic. Nevertheless, Gross Cash Accruals (GCA) of the company remained comfortable at Rs.27.87 crore (Rs.28.85 crore in FY19) vis-à-vis debt repayment obligation of Rs.0.29 crore in FY20.

Despite the loss of business operations during April'20 - May'20 incidental to the pan-India lockdown announced by the Government of India, the financial performance of the company improved during H1FY21 marked by turnover of ~Rs.2,039 crores (~Rs.1,913 crores during H1FY20) and PAT of Rs.20.14 crore (Rs.14.53 crore during H1FY20) amidst robust demand. The company has further recorded sales of ~Rs.537 crore during October 2020.

Moderate debt coverage indicators

The overall gearing ratio improved from 2.27 times as on March 31, 2019 to 1.96 times as on March 31, 2020. Total Debt/GCA however moderated to 13.47 times as on March 31, 2020 from 13.00 times as on March 31, 2019 due to decline in the GCA levels. The overall gearing ratio and Total Debt/GCA however improved substantially to 1.33 times and 6.75 times as on Sep 2020 on the back of lower utilizations of the working capital lines.

Key Rating Weaknesses

Foreign exchange risk although low, is present

Due to dependence on imports which formed around 26% of the total purchases (of IT products), the company is vulnerable to foreign currency risk for its import payments. SEPL witnessed a forex loss of Rs.9.24 crore in FY20 vis-à-vis forex gain of Rs.5.85 crore in FY19, which remained adjusted with the procurement price of the company.

Principal concentration risk

SEPL continues to derive majority of its revenue primarily from three principals namely Dell, Seagate and Acer (67.96% in FY20 vis-à-vis 70.25% in FY19). However, the company focuses on adding new products of established brands to its product portfolio to diversify revenue base on a year on year basis which mitigates concentration risk to an extent.

During the last 2 fiscals, SEPL has taken concerted efforts to reduce dependencies on its principal by focusing on new tie ups like Kaspersky, Barco, Optoma, Ubiquity, Harman, G&G, Silicon Power, Pelco among others in its product portfolio in FY20 & H1FY21. Further, SEPL has also been gradually increasing its sales contribution from Lenovo brand (~4% in FY18 to ~10% in FY20) which further mitigates the risk.

Low profitability margins and high level of competition in the industry

SEPL's profitability margins have continuously remained low, which is mainly attributed to trading nature of business operations combined with high level competition in the IT hardware trading industry with low entry barriers, however the PBILDT & PAT level continued to remain satisfactory in the past three years. The PBILDT & PAT level of the company stood at Rs.70.80 crore and Rs.26.89 crore in FY20 vis-à-vis Rs.80.91 crore & Rs.28.06 crore respectively in FY19. Further, ROCE also remains satisfactory at 16.28x in FY20 as against 18.30x in FY19.

Impact of Covid-19

Pursuant to the Covid-19 pandemic and the subsequent lockdown, the operations of the company was impacted from March 22, 2020 till May 15, 2020. The company however partially resumed its operations from the initial week of May 2020 on some of the location with minimal staffs. Complete operations were resumed from May 15, 2020 across the entire locations. Nevertheless, the company recorded sales of nearly ~Rs.2,039 crores during H1FY21 vis-a-vis ~Rs.1,913 crores during the corresponding previous period on the back of increased demand due to Work from Home (WFH) and Study at Home (SAH) practices.

Outlook on the IT sector

The future prospects of the Indian IT services industry is well positioned to garner advantage of the opportunities that come in near future. The pandemic has proved that any company that have not adequately invested in their digital transformation over the last years, have felt the heat in the on-going crisis. Henceforth, technology will play a pivotal role in helping enterprises to adapt to the new normal in the medium term. Companies are expected to invest towards building operational resilience, analytics, automation, cloud and cyber security, etc. As the deal momentum rises in the latter half of the fiscal, margin is expected to be improve further.

Liquidity position: Adequate

The liquidity position of SEPL remains adequate characterized by fund based utilization of ~71% during the past twelve months ended October 2020 and Gross Cash Accruals of Rs.27.87 crore vis-à-vis debt repayment obligation of Rs.0.29 crore in FY20. Further, the operating cycle of the company continued to remain satisfactory at 12 days in H1FY21 (32 days in FY20). The free cash and bank balance of SEPL however remained low (~Rs.6.30 crore as on March 31, 2020) with most of the cash/liquid investments either encumbered with banks as margin money or is held with GoI (total amounting to Rs.70.60 crore as on March 31, 2020).

Further, SEPL has not availed moratorium/deferment of its interest servicing under Covid-19 Regulatory Package announced by the Reserve Bank of India.

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](#)

[Rating Methodology for Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Complexity level of rated instruments](#)

About the Company

Supertron Electronics Private Limited (SEPL) promoted by Mr. V.K. Bhandari of Kolkata in 1993, is a national distributor of computer and associated peripherals of around 30 major global IT brands like Acer, Dell, Lenovo, Seagate, Samsung, Xerox, Wacom, LG, etc. SEPL's traded product portfolio is diversified with around 50 products which include Desktops/ TFT Monitors, Servers, Laptops, Netbooks, PC Components, Peripherals, Memory modules, printers, storage products, networking products, gaming and consumer electronic products. The company also has Cloudbtail, Amazon and Flipkart as its channel partners along with players like Infinity Retail, Future Retail Ltd, Reliance Digital, Vijay Sales in organized retail store segment.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (Prov)
Total operating income	3412.31	3615.79	2039.14
PBILDT	80.91	70.80	38.54
PAT	28.06	26.89	20.14
Overall gearing (times)	2.27	1.96	1.33
Interest coverage (times)	2.05	1.77	3.49

A: Audited Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure 4

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	-	-	-	310.00	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	196.00	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 - LT-Cash Credit	LT	310.00	CARE A-; Positive	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (03-Jan-19)	1)CARE A-; Stable (29-Dec-17)
2.	Non-fund-based - ST-BG/LC	ST	196.00	CARE A2+	1)CARE A2+ (07-Oct-20)	1)CARE A2+ (04-Oct-19)	1)CARE A2+ (03-Jan-19)	1)CARE A2+ (29-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument/ facilities:

1. Cash Credit Limit	Detailed explanation
A. Financial covenants	The margin applicable is 25% on stock and 30% on book debts (cover period of 90 days).
	Penal interest rate of 2% p.a. on the irregular portion or period of irregularity.
B. Non-financial covenants	Monthly stock statements to be submitted by the company within 20 days after the month to which it relates.
2. LC/BG Limit	
A. Financial covenants	15% margin in case of LC and BG.
B. Non-financial covenants	Foreign LCs shall be opened as per the provisions of exchange control and import regulations.

Annexure-4: Complexity level of various instrument rated for this category

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. 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.

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