

Supertron Electronics Pvt. Ltd

January 3, 2019

Rating

	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	320.00	CARE A-;Stable (A Minus, Outlook:-Stable)	Reaffirmed
Short Term Bank Facilities	196.00	CARE A2+ (A Two Plus)	Reaffirmed
Total facilities	516.00 (Rs. Five hundred and sixteen crore only)		

Detailed Rationale

The ratings assigned to the bank facilities of Supertron Electronics Pvt. Ltd continue to derive strength from the experience of the promoter, long association with reputed principals, established market position in domestic IT distribution industry, widespread distribution network with strong presence in Tier-II and Tier-III cities with a well-diversified mix of products, low inventory obsolesce risk, satisfactory financial profile of the company which is marked with consistent growth in turnover and profitability and efficient working capital management. The rating is however constrained by moderate gearing ratios, low profitability levels, principal concentration risk and intense competition in the IT distribution business

The ability of the company to maintain its relationship with its existing principals, improve its profitability levels while sustaining and gradually improving its capital structure would remain the key rating sensitivities

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

SEPL which was incorporated in 1993 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 enabled SEPL to establish relationships with reputed brands and deal in more than 50 product categories. SEPL has throughout maintained long term relationships with its suppliers including Dell and Seagate with which it has been associated for more than ten years.

Established market position & wide distribution network with strong presence in Tier-II & Tier-III 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 more than 8467 registered channel partners through 36 branches and 30 satellite spread across 870 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.

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.

Efficient working capital management despite working capital intensive nature of operations

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

Working capital intensity is another inherent characteristic of the IT distribution business, however, strong policies and operational framework has enabled SEPL to efficiently manage its working capital cycle which though witnessed deterioration from 39 days as on Mar.31, 2017 to 40 days as on Mar.31, 2018, remained satisfactory considering the trading nature of operations. Average working capital utilisation was around 76.25% during the period Nov'17-Oct'18.

Satisfactory financial profile marked with consistent growth in sales

The net sales of the company grew by around 10.49% in FY18 over FY17 from Rs.2750.72crore in FY17 to Rs.3039.23crore in FY18 mainly on account of increase in the sale of Dell Notebooks, Lenovo & Acer desktop computers, Seagate hard-disks and Xerox printers Though the operating and PAT margins are low owing to the trading nature of the company & in line with the preceding financial years, sales promotion expenses and intense competition from the peers & online channels, the PBILDT & PAT levels increased and stood at Rs.65.16crore & Rs.23.80crore in FY18 respectively vis-à-vis Rs. 58.40 crore & 21.90crore in FY17. The improvement in profitability level was mainly in line with the increase in sales and addition of new principals to the existing portfolio of branded products. The company reported a satisfactory GCA of Rs. 24.45 crore vis-à-vis debt repayment of Rs. 0.21 crore in FY18. During H1FY19 SEPL reported net sales of Rs.1842.54crore & EBITDA of Rs.39.03crore vis-à-vis Rs.1577crore and EBITDA of Rs.32.17crore in H1FY18.

Key Rating Weaknesses

Deterioration in gearing ratios

TOL/TNW deteriorated from 5.73x in FY17 to 5.95x in FY18 on account of increase in unsecured loans and trade payables on a y-o-y basis in FY18. However, TD/GCA improved from 16.02x as on Mar.31,2017 to 15.16x as on Mar.31,2018 on account of improved GCA levels from Rs.20.81crore in FY17 to Rs.24.85crore in FY18.

Foreign exchange risk although low, is present

Due to dependence on imports which formed around 30% of the total purchases (of IT products) (for FY18, amounting to Rs.820crore), the company is vulnerable to foreign currency risk for its import payments. In FY18, SEPL witnessed a forex loss of Rs.3.13crore vis-à-vis Rs.0.99 crore in FY17, which remained adjusted with the procurement price of the company.

Principal concentration risk

SEPL still derives majority of its revenue primarily from three principals namely Dell, Seagate and Acer (69.13% in FY18 vis-à-vis 67.83% in FY17). However, the company focuses on adding new products of established brands to its portfolio to diversify revenue base on a year on year basis which mitigates concentration risk to an extent.

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 have been increasing continuously in the past three years. The PBILDT & PAT level of the company stood at Rs. 65.16 crore and Rs. 23.80 crore in FY18 vis-à-vis Rs. 58.40 crore & Rs. 21.90 crore respectively in FY17. ROCE remains satisfactory though it has deteriorated from 17.65x in FY17 to 15.46x in FY18 on account of increase in working capital borrowings owing to extended credit offered to online channel partners

Liquidity

As on March.31, 2018, the company has maintained cash balance of Rs.75.73 crore (including fixed deposits as margin money of Rs.60.11crore), thus providing some financial flexibility. In addition to the above the company had liquid investments to the tune of Rs.7.95crore in FY18.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for wholesale trading Companies](#)

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

About the Company

Supertron Electronics Pvt. Ltd. (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, Seagate, Gionee, Xerox, Wacom, LG, etc. SEPL's traded product portfolio is diversified with around 50 products which include Desktops, Servers, Laptops, Netbooks, PC Components, Peripherals, Memory modules, printers, casings, digitalizes, storage products, networking products and consumer electronic products. During FY17 the company added Xerox Corporation & Logitech, to its umbrella of brands for the distribution of multiple products. SEPL has also forayed into adding Quickheal for their anti-virus software, Synology for NAS products and AMD Avermedia for digital cards in

their principal list during FY18. Moreover, During 7MFY19 SEPL also added Cannon (for distribution of printers), MSI (for distribution of Gaming Notebooks), Pantum (for distribution of printers), Barco (for distribution of boardroom solution software) & Ubiquity (for distribution of network solutions). For Lenovo the company was earlier involved into commercial distributorship in UP, Uttarakhand, MP, Chhattisgarh, J&K and Rajasthan. During FY18, SEPL has expanded its area of exclusive distributorship for Lenovo in Andhra Pradesh and Telangana. The company also has Cloudtail, 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 of SEPL (Rs. in crore)	FY17(A)	FY18(A)
Total Operating Income	2750.72	3039.23
PBILDT	58.40	65.16
PAT	21.90	23.80
Overall Gearing	2.91	2.68
Interest Coverage	1.81	2.09

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. Abhishek Khemka

Tel: 033-4018 1610

Mobile: 9831099290

Email: abhishek.khemka@careratings.com

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

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	320.00	CARE A-; Stable
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	320.00	CARE A-; Stable	-	1)CARE A-; Stable (29-Dec-17)	1)CARE A- (07-Oct-16)	1)CARE BBB+ (22-Dec-15) 2)CARE BBB+ (01-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	196.00	CARE A2+	-	1)CARE A2+ (29-Dec-17)	1)CARE A2+ (07-Oct-16)	1)CARE A2 (22-Dec-15) 2)CARE A2 (01-Apr-15)

CONTACT
Head Office Mumbai**Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

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**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**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@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**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000 / 01

Email: anand.jha@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**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**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**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**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

CIN - L67190MH1993PLC071691