

October 07, 2021

ABM Tele Mobiles India Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital Facilities	150.0	150.0	[ICRA]BBB (Negative); reaffirmed
Non fund based- Working Capital Facilities	26.0	26.0	[ICRA]A3+; reaffirmed
Total	176.0	176.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in ABM Tele Mobiles India Pvt Ltd (ABM or 'the company')'s status as the sole Samsung Prime Distributor (SPD) of mobile phones and related accessories in Karnataka. The rating also takes comfort from the company's robust distribution network, spanning more than 70 regional distributors and 50 plus retail outlets. The rating positively reflects the experience of the management in the retailing and distributorship business, with presence across sectors such as passenger vehicles, apparel and electronics.

The negative outlook on the long term rating takes into account the decline in turnover and profits of ABM in recent years, impacted by high competition from online sales channels and Covid-19 pandemic related disruptions. ABM's revenues declined by 55% on year-on-year basis in 5M FY2022 on account of Covid 19 related lockdown and global chipset shortage due to which supply and launch of mobiles phones was impacted. Turnover and profits for the full year of FY2022 may be adversely impacted in case of sustained impact of the supply related issues.

The ratings continue to take into account the thin profitability metrics and moderate debt protection indicators. The operating margins declined to 1.0% in FY2021 from 1.3% in FY2020. The company's debt coverage metrics remain moderated with interest coverage ratio of around 1.3 times. In addition, the company continued to have significant loans and advanced to related parties as on March 2021, though part of the same have been recovered in YTD FY2022.

The ratings are further restricted by the high revenue concentration risks as the entire revenue is derived from the Samsung distributorship. Given the absence of any fixed-tenure agreement with Samsung, the company is vulnerable to any adverse developments in its status as Samsung Prime Distributor (SPD). Nonetheless, the impact would be mitigated to some extent by the low fixed overheads and relatively low inventory levels carried by the company.

Key rating drivers and their description

Credit strengths

Experienced management and established track record in the distributorship business: The promoters of ABM have experience of over three decades in distributorship and retailing business in Bangalore, with presence across segments such as passenger vehicles, apparels and electronics.

Association with Samsung and robust distribution network: ABM is the Samsung Prime Distributor for the entire state of Karnataka and has a robust distribution network spanning across the length and breadth of Karnataka with more than 70 regional distributors and 50 plus retail outlets. Despite increased competition from new entrants to the market in recent years, Samsung has an established position in the Indian smartphone market.

Lean working capital cycle: ABM's working capital requirements in the distribution business are low, backed by tight inventory holdings and fast realization of debtors. ABM avails channel financing facilities from its lenders, which meets the majority of its funding requirements. ABM has been able to maintain the lower working capital intensity in its operations over the years. However, NWC/OI was 11% as on March 2021 due to high inventory and receivables as on March 2021.

Credit challenges

Exposure to revenue concentration risks: ABM derives its entire revenues from the distribution of Samsung mobile phones in Karnataka. The company does not have a fixed duration contract with Samsung, however, its distributorship agreement is not renewed on an annual basis. In case Samsung terminates the contract, the company's business profile would be adversely impacted. The company's revenue in recent years has been impacted as Samsung has been facing competition from newer rivals in segments ranging from mid-range to premium segment. Competition from online retail can also impact the share of offline channel which is handled by distributors like ABM.

ABM's revenues declined by 55% on year-on-year basis in 5M FY2022 on account of Covid 19 related lockdown and global chipset shortage due to which supply and launch of mobiles phones was impacted. Turnover and profits for the full year of FY2022 may be adversely impacted in case of sustained impact of the supply related issues.

Inherent low profitability of the trading business and modest debt protection indicators - The trading business is characterized by inherently low margins; hence ABM reports modest operating surplus and cash accruals. The operating margin has remained low in the range of 1.0-1.3% over the last few years. Notwithstanding the efficient working capital cycle of the company, its debt coverage metrics remain moderated with interest coverage ratio of around 1.3 times in FY2021 as compared to 1.4 times in FY2020.

Significant loans and advances to group companies- The company had provided significant loans and advances of Rs. 21.7 crore to few group companies as on March 31, 2020 from Rs. 2.3 crore as on March 2019. As on March 31, 2021, the loan and advances outstanding as on March 31, 2021 is around Rs. 20 crore. However, out of Rs. 20 crore, over 50% has already been recovered in FY2022 and remaining is to be expected to be recovered by end of this fiscal. While it is expected to be entirely recovered in the current fiscal, the outflows are significant and any delayed recovery of the same could adversely impact the liquidity of the company.

Liquidity position: Adequate

ABM's liquidity is adequate with average working capital utilisation levels of 54% in the twelve-month period ending August 2021. The company does not have any scheduled term debt repayments in FY2022 and also does not have any major capex requirements in medium term. ABM had availed emergency credit line of around Rs. 14 crore in FY2021 for which the repayments are to start from July 2022. Further, unsecured loans of Rs. 4.2 crore from the promoters as on March 31, 2021, supports the liquidity profile.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Stable if the company demonstrates sustained recovery in revenue and profitability along with efficient management of working capital cycle, thus leading to improved interest coverage. Recovery of loans and advances given to group companies, leading to an improved liquidity profile could also be a positive indicator for the company.

Negative factors –Downgrade pressure on ABM’s rating could arise in case of further weakening of interest coverage ratio due to lower profits or increase in working capital intensity. Delayed recovery of loans and advances given to group companies will also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the Standalone financials of ABM.

About the company

ABM, incorporated in 2004, is the Samsung Prime Distributor (SPD) for mobile phones in entire Karnataka. As a SPD, the company has a strong distribution network across Karnataka. Currently ABM caters to 70 plus Samsung regional distributors and 50 plus Samsung retail outlets.

Key financial indicators (audited)

ABM	FY2020	FY2021 Prov.
Operating Income (Rs. crore)	1,437.8	1,443.4
PAT (Rs. crore)	4.9	5.0
OPBDIT/OI (%)	1.3%	1.0%
PAT/OI (%)	0.3%	0.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.7
Total Debt/OPBDIT (times)	5.0	11.3
Interest Coverage (times)	1.4	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA research

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 7, 2021			
1	Fund based limits	Long-term	150.0	-	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based limits	Short-Term	26.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based	Simple
Non Fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based	NA	NA	NA	150.0	[ICRA]BBB(Negative)
NA	Non Fund based	NA	NA	NA	26.0	[ICRA]A3+

Source: Company; LT-Long term; ST- Short term

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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