

June 24, 2022

Big C Mobiles Pvt. Ltd.: Long-term rating downgraded to [ICRA]BBB- (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Cash Credit	28.0	29.5	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Negative)
Short-term: Non-fund Based BG	9.0	5.0	[ICRA]A3; reaffirmed
Unallocated Limits	-	2.5	[ICRA]BBB- (Stable) / [ICRA]A3; long-term rating downgraded from [ICRA]BBB (Negative); Short term rating reaffirmed
Total	37.0	37.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings factors in the sustained stress on the debt coverage metrics of Big C Mobiles Pvt. Ltd. (BIGC) due to pressure on its revenues and operating profits. The interest cover is expected to remain lower than 3.0 times in FY2023. The company's sales remained lower than the pre-pandemic level in FY2022, though higher by 12-14% on a year-on-year (YoY) basis, which constrained its operating profits.

The ratings are constrained by the continued operating losses by BIGC's subsidiary, Big C Mobiles TN Private Limited (BIGCTN) due to under absorption of overheads. Further, the company's TOL/TNW stood high at 3.8 times as on March 31, 2021 (4.2 times in the previous year) and is likely to remain elevated in FY2022 and FY2023 owing to a moderation in net worth with continued losses in the subsidiary. Notwithstanding BIGC's recent foray into Tamil Nadu, it remains exposed to geographical concentration risks as more than 95% of the consolidated revenues are generated from stores in Andhra Pradesh and Telangana. The ratings also consider the intense competition in the industry from e-commerce players, other large mobile retail chains and unorganised stores. The company has high brand concentration risk with the top three brands, Samsung, Vivo and Oppo, contributing 59% to the total sales in 10M FY2022.

The ratings favourably factor in the promoter's significant experience in the mobile retailing business, leading to established relationships with suppliers. The company operated 214 stores under the brand 'Big C' as of March 2022, with reputed presence in Andhra Pradesh and Telangana, leading to a strong market position in these two states. The ratings also consider the expected revenue growth by 10-12% in FY2023, supported by addition of new stores.

The Stable outlook reflects ICRA's opinion that the extensive experience of the promoters will support the company's performance.

Key rating drivers and their description

Credit strengths

Significant experience of management and established market position of BIGC – The promoters have more than a decade of experience in the mobile retailing business, leading to established relationships with suppliers. The company operated 214

stores under the brand 'Big C' as of March 2022. It has extensive presence in Andhra Pradesh and Telangana, leading to an established market position in these two states.

Revenues likely to improve by 10-12% in FY2023 – The revenues are expected to improve by 10-12% in FY2023, supported by addition of stores.

Credit challenges

Continued operating losses by BIGCTN; sustained pressure on coverage metrics – In FY2022, the company's operating profits are estimated to be around 1.1-1.2%, which is expected to largely sustain in the near term. BIGC's subsidiary, BIGCTN, is anticipated to report operating losses worth around Rs. 2.6 crore in FY2022 due to under absorption of overheads, which is likely to exert pressure on consolidated profitability. Further, the interest coverage metrics remained moderate at 2.2 – 2.5 times in FY2022, given the modest operating profits and are expected to remain less than 3.0 times in FY2023.

High TOL/TNW due to moderation in net worth due to losses in subsidiary – The company's TOL/TNW stood high at 3.8 times as on March 31, 2021 (4.2 times in the previous year) and is likely to remain elevated in FY2022 and FY2023 owing to a moderation in net worth with continued losses in the subsidiary.

High geographical and product concentration risks amid intense competition in mobile retail industry – Notwithstanding its recent foray into Tamil Nadu, the company remains exposed to the geographical concentration risk as more than 95% of the revenues are generated from Andhra Pradesh and Telangana. It also faces brand concentration risk as the top three brands, Samsung, Vivo, and Oppo, contributed ~66% and 59% of the total sales in FY2021 and 10M FY2022. BIGC remains highly dependent on the mobile manufacturers' strategy for the Indian markets, the success of their products and the pace of new launches amid intense competition in the industry. The company faces competition from e-commerce players, other large mobile retail chains and unorganised stores.

Liquidity position: Stretched

The company's liquidity position is stretched as reflected by limited cushion provided by the undrawn working capital limits. It has debt repayment obligation of Rs. 1.21 crore in FY2023. Further, BIGC reported free cash and bank balance of Rs. 0.99 crore as on March 31, 2022. Moreover, the funding requirements towards subsidiary, BIGCTN, cannot be ruled out. However, the absence of any major repayment obligations in the near term, flexibility to reduce director's remuneration, and availability of need-based unsecured loans from promoters support the liquidity to an extent.

Rating sensitivities

Positive factors – ICRA could upgrade BIGC's ratings if there is an improvement in the company's profitability with continued growth in scale of operations. Improvement in its liquidity position would also support a rating upgrade.

Negative factors – Negative pressure on the ratings could arise if there is sustained pressure on the company's revenues and margins or deterioration in its working capital cycle impacting the liquidity position. Specific credit metrics that could lead to a rating downgrade include adjusted Interest coverage¹ less than 2.75 times on a sustained basis.

¹ Charges paid on credit cards and commission to financiers considered as a part of selling expense

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BIGC. The list of entities forming part of BIGC's consolidated financials are enlisted in Annexure-2

About the company

BIGC was incorporated in 2002 by Mr. Guru Swamy Naidu, Mr. Balachandrudu, Mr. Balaji and Mr. Kailash as Balaji Watch and Mobiles Private Limited. It was involved in retailing of watches and mobile phones. In 2006, the company discontinued retailing of watches and limited its business to mobile phones. BIGC retails mobile phones and tablets through a chain of multi-brand outlets under the brand 'Big C'. As on March 31, 2022, it had 214 retail outlets spread across Andhra Pradesh and Telangana, selling mobile phone brands like Samsung, Xiaomi, Vivo, Oppo, Apple, etc.

Big C Mobiles TN Private Limited was incorporated in 2018, as a subsidiary of BIGC, to run a chain of multi-brand mobile phone outlets under the brand name 'Big C' in Tamil Nadu. As on March 31, 2022, the company had 20 outlets across Tamil Nadu selling mobile phones of various brands like Samsung, Vivo, Oppo, etc.

Key financial indicators (audited)

BIG C Consolidated Financials [^]	FY2020	FY2021
Operating Income (Rs. crore)	1070.5	754.6
PAT (Rs. crore)	-3.1	0.6
OPBDIT/OI (%)	1.2%	1.3%
PAT/OI (%)	-0.3%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.2	3.8
Total Debt/OPBDIT (times)	3.9	4.7
Interest Coverage (times)	2.4	2.0

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

Source: Annual Report and Company, ICRA Research

[^]ICRA has consolidated the BIGC's standalone financials with BIGCTN's financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in Jun 24, 2022	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
								Mar 02, 2020	May 31, 2019
1	Fund-based/CC	Long-term	29.5	-	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)
2	Non-fund Based/BG	Long-term	5.0	--	[ICRA]A3	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
3	Unallocated Limits	Long-term	2.5	--	[ICRA]BBB-(Stable)/A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/CC	Simple
Non-fund Based	Very Simple
Unallocated Limits	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based/CC	-	-	-	29.5	[ICRA]BBB- (Stable)
-	Non-fund based	-	-	-	5.0	[ICRA]A3
-	Unallocated Limits	-	-	-	2.5	[ICRA]BBB- (Stable)/A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Big C Mobiles TN Pvt. Ltd.	85%	Full Consolidation

Source: Company

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Branches



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