

January 30, 2024

Sangeetha Mobiles Private Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	70.00	70.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Short Term – Fund Based – Others	35.00	35.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short Term – Fund Based/Non-Fund Based – Others	60.00	60.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	165.00	165.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated profiles of Sangeetha Mobiles Private Limited (SMPL), which include its subsidiaries, Wham Infocomm Private Limited (WIPL) and Anu Distributors Private Limited (ADPL) together referred to as the Group, as these entities also have a common management and significant operational and financial linkages among them.

The ratings upgrade reflects an improvement in the Group's revenues by ~24% to Rs. 2,216.3 crore in FY2023, supported by improved footfalls and increase in stores. This has also supported generation of healthy cash accruals of Rs. 71 crore in FY2023. Moreover, the financial profile of the Group remains healthy, as reflected in an interest coverage of 3.1 times and Total Debt/OPBDITA of 2.8 times as on March 31, 2023. Moreover, the liquidity profile of Group remains healthy with close to Rs. 100-crore cushion in fund-based limits as of November 2023. The ratings continue to factor in the established presence of the Group in the South Indian market with significant brand value established on the back of extensive experience of its promoters in the mobile retail industry. Further, ICRA notes the expansion plans of the Group to enter new markets in Odisha and Maharashtra, which are expected to reduce geographical concentration risk to an extent. The ratings, however, remain constrained by the company's low operating margin due to the retail nature of operations and intense competition from online and off-line vendors, which led to limited pricing flexibility in the recent past. These apart, the ratings continue to remain constrained by its high geographical concentration with ~50% of the Group's revenues derived from Karnataka and high product concentration with focus mainly on mobile phones and accessories.

The Stable outlook reflects ICRA's expectation that the Group will continue to benefit from its established presence in the market and wide retail sales network of 776 outlets across South India.

Key rating drivers and their description

Credit strengths

Healthy increase in revenues and profitability in FY2023; momentum likely to continue in the current fiscal coupled with strong financial and liquidity profile – The Group had registered revenues of Rs.2,216.3 crore in FY2023 with a YoY growth of 23.9%. The revenues are expected to grow by 10-12% over the medium term, supported by commencement of online platform in the current year coupled with addition of new stores. Further, the Group's financial profile is characterised by a healthy capital structure with Total Debt/TNW of 1.4 times in FY2023, supported by its strong net worth position. The coverage indicators continue to be adequate with an interest coverage of 3.1 times in FY2023. The liquidity profile was also healthy with low working capital intensity of 8.6% and cash and liquid investments of ~Rs.20 crore as of November 2023.

Established presence as one of the multi-brand retail mobile phone vendors in South India – SMPL commenced operations in 2008 as a mobile phone retailer and has established itself as a dominant player in the South Indian multi-brand mobile retail market with 776 stores at present. Operating in the market for more than four decades, the company is among the largest players in India with strong brand presence in Karnataka, Andhra Pradesh, Telangana, Tamil Nadu and Goa. Strong relationships with major mobile manufacturers lend stability to its volumes in the long term.

Credit challenges

Moderate operating profitability – Given the retail nature of operations, the Group’s operating margins are expected to remain at a moderate level. The Group’s margins remain limited due to lack of pricing flexibility amid intense competition. In FY2023, the company reported an OPBITDA margin of 5.3% against 5.9% in FY2022 mainly due to increase in cost of purchases.

Intense competition across product categories limits pricing flexibility and margins – The mobile retail industry is characterised by stiff competition due to its fragmented nature with a considerable volume share enjoyed by many small unorganised players, continuous expansion undertaken by a few large regional players and presence of e-commerce players. However, with a strong brand presence and focussed marketing initiatives, SMPL has been able to maintain a reasonable market position, leading to stable volume and earnings over the years, despite limited pricing flexibility.

Exposed to high geographical and product concentration risks – With high focus on mobile phones and accessories, the Group’s product concentration risk remains high and any weakening of demand for mobile phones will impact its operational profile. However, demand for mobile phones is unlikely to decline in the medium term. The company’s operating revenue is mainly concentrated in Karnataka, which accounted for around 50% of sales in FY2023, indicating high geographical concentration risk. Nevertheless, the Group’s widening presence in other states like Andhra Pradesh, Telangana and Tamil Nadu along with launch of various other products mitigates the risk to an extent.

Liquidity position: Adequate

The Group’s liquidity position remains adequate, as characterised by healthy cash and cash equivalents of around Rs. 20 crore and working capital buffer of ~Rs.100 crore as of November 30, 2023. Given the healthy demand for the Group’s products in the market, the company’s cash accruals from operations are expected to be healthy and aid in meeting its debt obligations.

Rating sensitivities

Positive factors – ICRA could upgrade SMPL’s ratings if the Group demonstrates a healthy growth in its earnings along with an improvement in the liquidity profile on a sustained basis.

Negative factors – ICRA could downgrade the ratings of SMPL if there is a significant decline in revenues or operating profits or if any large debt-funded capex adversely impacts the liquidity position. Specific credit metrics that could lead to ratings downgrade include an interest cover of less than 3 times on a sustained basis.

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 analysed the consolidated profile of SMPL and its subsidiaries, WIPL and ADPL

About the company

Incorporated in 2008, SMPL is a multi-brand retailer of mobile handsets in Karnataka, Tamil Nadu, Andhra Pradesh and Telangana. It deals with all leading mobile handset brands such as Apple, Samsung, Xiaomi, Sony, Vivo, Oppo, RealMe, OnePlus, Nokia, LG, Gionee and Lava among others through its retail network of 776 stores (consolidated) across South India. Mr. Subhash Chandra, the Managing Director and his family members own the entire equity stake in SMPL.

Key financial indicators (audited)

SMPL	Standalone (SMPL)		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	1,669.1	1,888.1	1,789.4	2,216.3
PAT	33.1	25.5	32.4	28.0
OPBDIT/OI	6.1%	5.2%	5.9%	5.3%
PAT/OI	2.0%	1.4%	1.8%	1.3%
Total outside liabilities/Tangible net worth (times)	1.8	1.4	2.3	2.0
Total debt/OPBDIT (times)	3.1	2.2	3.6	2.8
Interest coverage (times)	3.3	3.2	3.1	3.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Jan 30, 2024	Mar 29, 2023	Dec 22, 2022		
1 Fund Based – Cash Credit	Long term	70.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	
2 Fund Based – Others (Channel Finance)	Short term	35.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
3 Fund Based/Non-Fund Based – Others	Short term	60.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4 Interchangeable Limits	Short term	-	-	-	-	-	[ICRA]A2	[ICRA]A2	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Short Term – Fund Based – Others	Simple
Short Term – Fund Based/Non-Fund Based – Others	Very 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 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Cash Credit	NA	NA	NA	70.00	[ICRA]A- (Stable)
NA	Fund Based – Channel Finance	NA	NA	NA	35.00	[ICRA]A2+
NA	Fund Based/Non-Fund Based – Others	NA	NA	NA	60.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	SMPL Ownership	Consolidation Approach
Sangeetha Mobiles Private Limited	100.00% (rated entity)	Full Consolidation
Wham Infocomm Private Limited	99.00%	Full Consolidation
Anu Distributors India Private limited	99.00%	Full Consolidation

Source: SMPL

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