ICRA

March 18, 2024

Pai International Electronics Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	182.3	143.5	[ICRA]BBB (Stable); reaffirmed
Long term – Fund based – Term loan	20.1	18.3	[ICRA]BBB (Stable); reaffirmed
Short term – Fund based	68.0	163.0	[ICRA]A3+; reaffirmed/ assigned for enhanced amount
Short term – Interchangeable- Working capital demand loan	0.0	(74.5)	[ICRA]A3+; assigned
Long Term/Short term – Unallocated limits	46.6	7.2	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**317.0**	**332.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings for Pai International Electronics Limited (Pai) continue to factor in its established market presence in South India, aided by the long track record of its promoters in the consumer durables retailing industry. Pai's strong market position, favourable economies of scale, established track record with major consumer durable original equipment manufacturers (OEMs) and efficient marketing and service network lend support to its business prospects. The company reported an operating income of Rs. 1,777 crore in FY2023 (16.7% growth) and is expected to further report more than 10% growth in the current fiscal. Backed by steady operating margins at 3.5-4%, Pai reported healthy cash accruals of Rs. 33.2 crore in FY2023. Further, its financial profile is characterised by moderate leverage and coverage indicators with total debt/TNW of 1.1 times and an interest coverage ratio of 2.6 times as on March 31, 2023.

The ratings, however, remain constrained by the low operating margins inherent to the retail nature of operations, high working capital requirements of the business and the vulnerability of earnings to the fragmented and competitive nature of the domestic consumer durables retail market. The ratings also consider the geographical concentration risk, as ~70% of the company's revenues are derived from a single market (Karnataka). The plans for opening new stores are likely to impact the profitability and debt indicators in the near term, given the gestation period for new stores, although the same is likely to improve diversification in the medium-to-long term.

The Stable outlook reflects ICRA's expectation that Pai will benefit from the extensive experience of its promoters and established brand presence in the South India market.

Key rating drivers and their description

Credit strengths

Significant experience of promoters with over 20 years of presence in retail industry and a strong brand name - The promoters have more than 20 years of experience in the consumer durables retailing (electronics and electricals) industry. Pai has a strong presence in Karnataka, Andhra Pradesh and Telangana, leading to an established market position in covering all major products in the consumer durables and electronics space, supported by strong partnerships with major players in the region. It is one of the largest retailers in South India with 210 stores spread across three states as on December 31, 2023.

Established tie-ups with major consumer durables OEMs – Pai has established relationships with major consumer durables OEMs, which have been contributing to the majority of its sales in recent years. This, coupled with the long-term positive demand for the consumer durables industry, is likely to support the company's revenue growth prospects going forward.

Credit challenges

High geographical concentration - The company is exposed to high geographical concentration risk, with ~70% of its revenues derived from Karnataka alone in FY2023, exposing Pai's business profile to region-specific risks and uncertainties. Nevertheless, comfort can be drawn from the fact that Pai has established itself as one of the top 10 retailers in Karnataka.

Inherently low margins and intense competition - As inherent to the industry, Pai's margins are low due to limited value addition and competition from e-commerce and brick-and-mortar players, particularly in Karnataka and Telangana. The changing economic and demographic landscape of the country has intensified competition within the consumer durables industry, driven by demand especially from tier-II and tier-III cities.

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 held by several small unorganised players, continuous expansion undertaken by a few large regional players and the presence of e-commerce players. However, with a strong brand presence and focused marketing initiatives, Pai has been able to maintain a reasonable market position, leading to stable volume and earnings over the years, despite limited pricing flexibility.

Liquidity position: Adequate

Pai's liquidity position is adequate and is expected to remain the same, supported by growth in earnings from operations, adequate unutilised lines of credit and free cash reserves enjoyed by the company. The average utilisation of its working capital facilities stood at ~45% over the last 12 months ended in January 2024. Pai is expected to generate cash accruals of Rs.30 crore, which would be sufficient for meeting its capex plans and debt commitments.

Rating sensitivities

Positive factors – Pai's ratings may be upgraded if the company registers a sustained healthy growth in revenues and earnings, leading to enhanced debt protection metrics and liquidity position. Specific credit metrics that could trigger an upgrade include an interest coverage ratio of more than 4.0 times on a sustained basis.

Negative factors – The ratings may be downgraded in case of sustained pressure on the company's operating performance or a deterioration in its working capital cycle, adversely impacting the entity's debt protection metrics and liquidity position. Specific credit metrics that could lead to a ratings downgrade include the interest cover declining below 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Retail Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Pai International Electronics Limited

About the company

Mr. Rajkumar Pai established Pai International in 2000 as a proprietary concern, initially focussing on home appliances with one store in Indira Nagar, Bengaluru (Karnataka). In 2005, the proprietary concern was converted into a limited company, Pai

International Electronics Limited. The company sells consumer electronics, home appliances, mobiles, IT and furniture products. Pai deals in all kinds of home and kitchen appliances, such as washing machines, refrigerators, air conditioners, air coolers, microwave ovens, chimneys, mobile phones, home theatres, vacuum cleaners, wet grinders and furniture. It has a presence across Karnataka, Telangana, and Andhra Pradesh.

The company deals with major multinational and domestic companies and distributes various products of Godrej, LG Electronics India Private Limited, Sony India Private Limited, IFB Industries Limited, Samsung India Electronics Private Limited, Voltas Limited, Whirlpool of India Limited and other reputed distributors. As on December 31, 2023, the company had 210 outlets across Karnataka, Telangana, and Andhra Pradesh.

Key financial indicators (audited)

PAI	FY2022	FY2023
Operating income	1,523.3	1,777.4
PAT	23.5	26.9
OPBDIT/OI	4.1%	4.0%
PAT/OI	1.5%	1.5%
Total outside liabilities/Tangible net worth (times)	2.0	1.8
Total debt/OPBDIT (times)	3.0	3.0
Interest coverage (times)	2.5	2.6

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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Mar 18, 2024	Jan 31, 2023	Dec 13, 2021	Mar 23, 2021	Sep 11, 2020
1	**Term loans**	Long term	18.3	18.3	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-
2	**Cash Credit**	Long term	143.5	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-
3	**Fund Based**	Short term	163.0	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	-	-
4	**Interchangeable- Working capital demand loan**	Short term	(74.5)	-	**[ICRA]A3+**	-	-	-	-
5	**Fund Based**	Long term and short term	-	--	-	-	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-

6	**Fixed Deposit**	Medium Term	-	--	**-**	**-**	**-**	**-**	**MA- (Stable); Withdrawn**
7	**Unallocated limits**	Long term and short term	7.2	--	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**-**	**-**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Long term – Fund based – Term loan	Simple
Short term – Fund based	Very simple
Short term – Interchangeable- Working capital demand loan	Very simple
Long Term/Short term – Unallocated limits	Not applicable

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	**Long term – Fund based – Term loan**	FY2020	NA	FY2027	18.3	**[ICRA]BBB (Stable)**
NA	**Long term – Fund based – Cash credit**	NA	NA	NA	143.5	**[ICRA]BBB (Stable)**
NA	**Short term – Fund based**	NA	NA	NA	163.0	**[ICRA]A3+**
NA	**Short term – Interchangeable-Working capital demand loan**	NA	NA	NA	(74.5)	**[ICRA]A3+**
NA	**Long Term/Short term – Unallocated limits**	NA	NA	NA	7.2	**[ICRA]BBB (Stable)/ [ICRA]A3+**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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