

Pai International Electronics Limited

June 28, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore) ¹	Rating Action
Proposed Fixed Deposit	50.00	MA- (Stable) assigned
Total	50.00	

Rating action

ICRA has assigned the medium-term rating of MA- (pronounced as M A minus) to the Rs. 50.00 crore proposed fixed deposit facility of Pai International Electronics Limited (Pai International / the company)². The outlook on the medium-term rating is Stable.

Rationale

The assigned rating considers the company's steady growth in the scale of operations over the past few years (5-year sales CAGR of 13.7% ending FY2018), promoters' extensive experience in consumer durables industry spanning over 17 years and its strong brand presence in Karnataka. The rating also considers the company's long-standing relationship with consumer durable majors, its service network and the long term favorable outlook for the consumer durables industry which lends support to its business prospects.

Pai International's financial profile is characterized by low operating margins of 4.6% during FY2018³, gearing of ~1.0 time and interest coverage and Total Debt/OPBITDA ratio of 3.6 times and 2.0 times respectively. The liquidity profile is tight with near full utilization of working capital facilities owing to the increase in tax balances with government authorities post the implementation of GST

The rating also considers the inherently high competitive intensity in the industry, which limits the company's pricing flexibility and profitability, and geographical concentration risks with over 70% of its revenues derived from single market (Karnataka). With aggressive expansion plans over the next two to three years, the company's ability to improve cash accruals while maintaining the debt indicators and improving the liquidity profile will be critical credit monitorables.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Pai International will benefit from the extensive experience of its promoters and established brand presence in the state of Karnataka. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better accruals, strengthen the financial risk profile. Conversely, the outlook may be revised to Negative if lower than expected cash accruals or higher than expected debt-funded capital expenditure results in deterioration in overall credit profile of the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ provisional

Key rating drivers

Credit strengths

- **Strong promoter background:** The company has a strong promoter background with the promoters having over 17 years of experience in the consumer durables retailing industry.
- **Well established brand presence in Karnataka:** Pai International commenced operations in the 2000 as a home appliances retailer and has been adding stores every year, primarily in the South Indian retail market. With its repertoire covering all major products under the consumer durables and electronics space, supported by strong tie-ups with major players in the industry, the brand Pai International has a well-established brand presence in Karnataka with over 70 stores as on March 31, 2018.
- **Established tie-ups with major consumer durable (CD) Original Equipment Manufacturers (OEMs) coupled with the long term positive demand for the CD industry is likely to support revenue growth:** The company has established relationship with major consumer durable OEMs such as Samsung, LG Electronics, Sony, Panasonic and Whirlpool etc. who have been contributing to majority of its sales over the past few years. This coupled with the long-term positive demand for the consumer durables industry is likely to support revenue growth prospects of the company going forward.
- **Moderate financial profile:** Inherent to the dealership nature of business, the company's operating and net margin is low at 4.6% and 2.1% respectively for FY2018 as the scope for value addition is limited. The company's coverage and capitalization indicators are moderate with gearing of 1.0 times as on March 31, 2018 and interest coverage and TD/OPBITDA of 3.6 times and 2.0 times respectively during FY2018. With higher inventory levels required to be maintained, there is a near full utilization of working capital facilities during FY2018 leading to tight liquidity position. Going forward, the company has aggressive expansion plans with an estimated spend of ~Rs. 68 crore over the next three years, the timing of capex and extent of debt funding remain to be seen.

Credit weaknesses

- **High geographical concentration risk:** The company derived ~72% of revenues from Karnataka in 9MFY2018, followed by Telangana exposing its business profile to region-specific risk and uncertainties.
- **High Competitive intensity:** Over the last decade, the consumer durables retailing industry has evolved with the advent of large retail chains at national level and strong regional players expanding their presence banking on the loyalty created. With changing economic and demographic landscape of the country, the industry witnessed high competition in the consumer durables industry with demand emanating especially from tier I and II cities. With large proliferation of these products, differentiation among similar format retailers has been largely on factors like presence of major brands, convenience of shopping (factors include showroom size, ambience, location, accessibility, etc.), after sales service and discounts offered. Pai faces competition from other players like Adishwar India Limited, Girias India, Ezone (Future Retail Limited), Sangeetha Mobiles Private Limited, Poorvika Mobiles Private Limited etc. apart from increasing sales in the e-commerce space.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating methodology](#)

[Rating methodology for Retail industry](#)

About the company:

Pai International was started as a proprietary concern in FY2000 by Mr. Rajkumar Pai for dealing with home appliances. In FY2005, the company was converted into a limited company: PAI International Electronics Limited (PIEL). The company deals in all kinds of home and kitchen appliances like televisions, washing machines, refrigerators, air conditioners, air coolers, audio and video systems, microwave ovens, chimneys, mobile handsets, home theatres, digital cameras, vacuum cleaners. The company comprises of three formats of stores: Pai International electronics limited, a large format stores in consumer durables and electronics; Pai Mobiles, chain of mobile stores focusing on latest mobile phones of top brands and Smart Electronics, (branded as "a unit of Pai International") focusing on consumer durables and electronics positioned towards the middle-class population. The company deals with major multinational and domestic companies and distributes various products of LG Electronics India Private Limited, Sony India Private Limited, IFB Industries Limited, Samsung India Electronics Private Limited, Voltas Limited, Whirlpool of India Ltd and other reputed distributors. As on 31st March 2018, the company has 94 outlets across the states of Karnataka, Telangana, and Andhra Pradesh.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	1060.1	1043.8
PAT (Rs. crore)	18.6	22.3
OPBDIT/ OI (%)	4.3%	4.6%
RoCE (%)	32.6%	27.1%
Total Debt/ TNW (times)	0.9	1.0
Total Debt/ OPBDIT (times)	1.4	2.0
Interest coverage (times)	3.3	3.6
NWC/ OI (%)	6.0%	9.5%

Source: company; Note: FY2018 are provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on March 31, 2018	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Fixed Deposit	NA	NA	NA	50.00	MA- (Stable)

Source: the company

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About ICRA Limited:

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