

December 28, 2020

ABM Tele Mobiles India Pvt Ltd: Ratings reaffirmed; outlook revised to Negative from Stable

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; Reaffirmed, outlook revised to Negative from Stable
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 outlook revision reflects the continued decline in turnover and profits of ABM Tele Mobiles India Pvt Ltd (ABM or 'the company') in recent years. While the company's profitability margins remained at the similar level with stable gross margins and reduced overheads, the debt coverage metrics have moderated. The interest coverage declined to around 1.39 times in FY2020 from 1.57 times in the prior year. In addition, the company has provided significant loan and advances to group entities during FY2020. If such advances are not recovered in a timely manner during FY2021, they could constrain the liquidity profile of ABM.

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 the absence of any long-term borrowings in the company's books.

The ratings continue to positively factor in the stable business risk profile of ABM, backed by the established market position of Samsung in the Indian smartphone market and ABM's status as the sole Samsung SPD 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.

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.

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 the its operations over the years.

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.

Inherent low profitability of the trading business – The trading business is characterised by inherently low margins; hence ABM reports modest operating surplus and cash accruals. The operating margin has remained low in the range of 1.3% over last few years. Notwithstanding the efficient working capital cycle of the company, its debt coverage metrics have moderated with interest coverage ratio declining to around 1.39 times in FY2020 from 1.57 times in the prior year.

Significant loans and advances to group companies – The company has provided significant loans and advances to few group companies, thus increasing the same to 21.7 crore as on March 2020 from 2.3 crore as on March 2019. While it is expected to be entirely recovered in the current fiscal, the outflows are significant and any non-recoverability 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 64% in H1FY2021. The company does not have any scheduled term debt repayments and major capex requirements in medium term. Further, unsecured loans of Rs. 6.45 crore from the promoters as on March 31, 2020, supports the liquidity profile.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Stable if the company demonstrates a substantial growth 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 triggers – Negative 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. Non-recoverability 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	Standalone

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 the length and breadth of Karnataka. Currently ABM caters to 70 plus Samsung regional distributors and 50 plus Samsung retail outlets. ABM has manpower strength of over 400 people employed at different levels for catering to the brand Samsung.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	1,626.2	1,437.8
PAT (Rs. crore)	5.1	4.9
OPBDIT/OI (%)	1.3%	1.3%
PAT/OI (%)	0.3%	0.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.0
Total Debt/OPBDIT (times)	3.9	5.0
Interest Coverage (times)	1.6	1.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2017
					28-Dec-2020	11-Nov-2019	4-Jul-2018	29-Jun-2018	31-Dec-2016
1	Fund Based Limits	Long Term	150.0	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Non-fund based limits	Short Term	26.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund based limits	-	-	-	150.0	[ICRA]BBB(Negative)
-	Non-fun-based limits	-	-	-	26.0	[ICRA]A3+

Source: ABM Tele Mobiles India Pvt Ltd

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