

February 02, 2021

RPGS Marketing: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	12.50	[ICRA]BB- (Stable) assigned
Unallocated Limit	10.00	[ICRA]BB- (Stable) assigned
Total	22.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the track record of RPGS Marketing's (RPGS) in the mobile handsets distributorship business and the significant experience of its managing partner for over a decade. The rating also derives comfort from RPGS being the exclusive distributor of Xiaomi phones from Bandra to Dahanu Road in Mumbai, which curtails competition to an extent. ICRA also notes the firm's comfortable working capital intensity as most of its sales to retailers are made on advance payment basis, along with low inventory holding requirement in the smartphone distribution industry.

The rating is, however, constrained by the entity's high revenue concentration risk as it currently deals only with the Xiaomi brand. ICRA notes that the company's revenues were negatively impacted in FY2020 primarily by the reduced distribution area, which is further aggravated in the current year by Covid-19 related stress. ICRA also notes the low profitability inherent in the smartphone distribution business, which along with large capital withdrawals have led to a low net worth base. Besides capital withdrawals, the entity also remains exposed to risks inherent in a partnership constitution. The rating also factors in the leveraged capital structure and modest coverage indicators owing to its high reliance on external debt. The rating also factors in the stiff competition due to the presence of various domestic and global players and increasing online sales, besides the risk of technological obsolescence in the smartphone industry and rapidly changing customer preferences.

The Stable outlook reflects ICRA belief that RPGS will continue to benefit from the extensive experience of its managing partner in the smartphone distribution industry.

Key rating drivers and their description

Credit strengths

Extensive experience of the managing partner in smartphone distribution industry - The managing partner, Mr. Rohit Sounik has been involved in mobile handset distributorship for more than a decade. While RPGS was earlier involved in distribution of Micromax, HTC, VIVO, Spice and Lenovo brands, currently, it is a distributor of the Xiaomi brand of smartphones.

Growth opportunities in the Indian smartphone market and exclusive distributor of Xiaomi phones from Bandra to Dahanu Road in Mumbai lends revenue visibility – The growth opportunities in the Indian smartphone market owing to an increase in the customer base lends support to revenue visibility. Further, the firm is an exclusive distributor of Xiaomi smartphones in Mumbai from Bandra to Dahanu Road area, which restricts the competition to some extent.

Comfortable working capital cycle – The working capital intensity has remained low (2.8% as on March 31, 2020) as RPGS receives advances from most of its retailers and holds an inventory of 10-15 days, while payments to the principal are made in ~15 days.

Credit challenges

Exposure to Xiaomi brand as the single revenue source from FY2019 – The firm’s revenue and profitability are exposed to the Xiaomi brand’s performance as it exclusively deals in Xiaomi smartphones. Although the firm enjoys a perpetual contract with Xiaomi, wherein the party wishing to terminate the contract must give the other party a notice period of three months, the risks of reduction in area of operations and low supply-demand dynamics can negatively impact RPGS’ operations.

Degrowth in OI in FY2020 due to reduced distribution area, pressure on OI further aggravated in current year by Covid-19 related stress – The firm has witnessed steep revenue degrowth of 31% to Rs. 246.8 crore in FY2020 from Rs. 358.8 crore in the previous fiscal due to reduced distribution area of Bandra to Dahanu Road from FY2020 onwards from Churchgate to Dahanu Road in FY2019. The firm currently sells smartphones only through its store in Mumbai and does not have any online presence. Further, the Covid-19 induced lockdown resulting in lower demand and supply restrictions aggravated the revenue degrowth with revenues decreasing by 30% to Rs. 125 crore in 9M FY2021 over Rs. 177 crore in 9M FY2020. While ICRA expects a double-digit revenue degrowth in the current year with signs of demand recovery, sales in Q4 FY2021 are expected to pick-up.

Low profitability from presence in the intensely competitive smartphone distribution business – RPGS’ operating margin has remained low in the range of 1.1–1.3% in FY2019 and FY2020, owing to the inherently low profit margins in the smartphones distribution industry. RPGS’ profitability is vulnerable to the intense competition from various domestic and global players in the smartphone industry as well as from online sales channel for the same brand (Xiaomi).

Leveraged capital structure with high reliance on working capital borrowing, weak coverage indicators – The low profitability along with sizable capital withdrawals has led to a low net worth base, which stood at Rs. 4.3 crore as on March 31, 2020 (Rs. 7.1 crore in FY2019). Along with high reliance on external debt, this has resulted in leveraged capital structure with a gearing of 2.6 times and TOL / TNW of 4.7 times as on March 31, 2020. Further, high interest charges, including interest on capital, led to weak coverage indicators with interest coverage of 1.2 times and debt service cover (DSCR) of 0.9 time as on March 31, 2020.

Inherent risks including capital withdrawals associated with partnership nature of firm – Given RPGS’ constitution as a partnership firm, RPGS remains exposed to discrete risks including the possibility of sizeable capital withdrawal. ICRA notes that there have been regular capital withdrawals over the FY2018-FY2020 period, which has limited the net worth expansion.

Liquidity position: Stretched

RPGS’ liquidity is stretched with negative fund flow from operations due to low profitability. Further, the regular capital withdrawals have limited the extent of internal funding leading to high reliance on external debt. Further, the working capital borrowings utilisation has remained high at ~80% for the 12-month period ending December 2020. Nonetheless, the free cash maintained in business provides some liquidity comfort.

Rating sensitivities

Positive trigger: ICRA is likely to upgrade RGPS’ rating if there is consistent revenue growth, while improving profitability indicators coupled with an improved liquidity position improve the tangible net worth on a sustained basis.

Negative trigger: The ratings may be downgraded if there is more than anticipated decline in sales and profitability from weak performance of the brand (Xiaomi) and/or any unfavourable change or discontinuation of the agreement with the principal resulting in weakening of the liquidity profile. Higher than anticipated capital withdrawals leading to deterioration in capital structure will also put negative pressure on RGPS’ rating.

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 standalone financials of RPGS.

About the firm

RPGS Marketing (RPGS) was started as a proprietorship concern by Mr. Gautam Prabhudesai in 2008. The firm was initially engaged in the distribution of Aircel SIM cards. In 2010, the firm was converted into a partnership firm with Mr. Rohit Sounik joining as a partner, following which the firm ventured in mobile handset distributorship. In 2012, Mr. Kulbir Sahani joined as the third partner in the firm, with equal profit and loss sharing ratio among the three partners. In April 2020, Mr. Gautam Prabhudesai and Mr. Kulbir Sahani retired from the firm. Two new partners, Mr. Mayur Madhusudan Shah and Mr. Prakash Vasudev Pohani came in as new partners from April 2020, with profit and loss sharing ratio of 60:25:15 among Mr. Rohit Sounik, Mr. Mayur Shah and Mr. Prakash Pohani.

Over the years, the firm became distributors of Micromax, HTC, VIVO, Spice and Lenovo mobile handsets in Mumbai. In 2018, the firm became the exclusive distributors of Xiaomi smartphones in Mumbai (from Churchgate to Dahanu Road). Due to an exclusivity clause, the firm gave up its other distributions. In FY2020, Xiaomi bifurcated the distributor's area with Bandra to Dahanu Road area remaining with RPGS and the rest going to other distributors. As on date, RPGS is the exclusive Xiaomi smartphone distributor from Bandra to Dahanu Road area in Mumbai.

Key financial indicators (Audited)

RPGS Standalone	FY2019	FY2020
Operating Income (Rs. crore)	358.8	246.8
PAT (Rs. crore)	2.6	(0.3)
OPBDIT/OI (%)	1.1%	1.3%
RoCE (%)	41.2%	24.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	4.7
Total Debt/OPBDIT (times)	1.5	3.6
Interest Coverage (times)	2.2	1.2
DSCR (times)	2.4	0.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	
					Feb 02, 2021	FY2020	FY2019	FY2018
1	Cash Credit	Long-term	12.50	-	[ICRA]BB- (Stable)	-	-	-
2	Unallocated limit	Long-term	10.00	-	[ICRA]BB- (Stable)	-	-	-

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 [click here](#)

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	Cash Credit	-	NA	NA	12.50	[ICRA]BB- (Stable)
NA	Unallocated Limit	-	NA	NA	10.00	[ICRA]BB- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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