

July 12, 2021

Big C Mobiles 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
Long term: Fund based – Cash credit	28.00	28.00	[ICRA]BBB; Reaffirmed; Outlook revised to Negative from Stable
Short term: Non-fund based BG	9.00	9.00	[ICRA]A3; Reaffirmed
Total	37.00	37.00	

*Instrument details are provided in Annexure-1;

Rationale

The revision in the outlook to Negative factors in the expected pressure on revenues and operating profits of Big C Mobiles Pvt. Ltd (BIGC) in FY2022 owing to the disruption caused by the second wave of the Covid-19 pandemic and the continued operating losses from Big C Mobiles TN Private Limited (BIGCTN). As per the provisional estimates for FY2021, BIGC (consolidated) witnessed a 29% decline in its revenues to around Rs. 755.0 crore and its operating profits fell by around 20% to Rs. 10-11 crore owing to the Covid-19 disruption. Further, BIGC's subsidiary, BIGCTN, reported operating losses of Rs. 2-3 crore due to under absorption of overheads in FY2021. While the revenues are expected to increase by around 5-6% in FY2022, they are likely to remain lower than the pre-pandemic levels. In FY2022, the operating profits are expected to largely sustain at FY2021 levels, which are lowest since FY2016. In addition, TOL/TNW stood high at 3.5 times as on March 31, 2021 (4.1 times in the previous year) and is also likely to remain elevated in FY2022 owing to the moderation in net worth with continued losses in the subsidiary.

Notwithstanding the recent foray of BIGC into Tamil Nadu, the company remains exposed to geographical concentration risks as 97% of the consolidated revenues are generated from stores in Andhra Pradesh and Telangana. The ratings also consider intense competition in the industry from e-commerce players, other large mobile retail chains and unorganised stores. Also, the company has high brand concentration risk with the top three brands, Samsung, Vivo and Oppo, contributing 67% to the total sales in 10M FY2021.

However, the ratings favourably factor in the promoter's significant experience in the mobile retailing business, leading to established relationships with suppliers. BIGC operates 204 stores under the brand 'Big C' and has reputed presence in Andhra Pradesh and Telangana, leading to a strong market position in these two states. The ratings also factor in the interest coverage of BIGC, which is estimated to be healthy in FY2021 and FY2022, supported by limited debt repayment obligations.

Key rating drivers and their description

Credit strengths

Significant experience of the management and established market position of BIGC – The promoters have more than a decade of experience in the mobile retailing business, leading to established relationships with suppliers. BIGC operates 204 stores under the brand Big C at present and has extensive presence in Andhra Pradesh and Telangana, leading to a strong market position in these two states.

Healthy debt coverage metrics – The total debt of BIGC (standalone) stood at Rs. 33.0 crore as on March 31, 2021 comprising Rs. 27.16 crore of working capital debt and the remaining Rs. 5.84 crore of vehicle loans and unsecured loans from promoters. The interest coverage of BIGC is estimated to remain healthy in FY2021 and FY2022, supported by limited debt obligations.

Credit challenges

Likely pressure on revenues and operating profits in FY2022 owing to the second wave of the pandemic and operating losses by BIGCTN – The second wave of the Covid-19 led disruption and continued operating losses by BIGCTN are likely to exert pressure on revenues and operating profits of BIGC in FY2022. While the revenues are expected to increase in FY2022 by 5-6% on a YoY basis, they are likely to remain lower than the pre-pandemic levels. In FY2022, the operating profits are expected to largely sustain the FY2021 levels, the lowest since FY2016. As per the provisional estimates for FY2021, BIGC's revenues declined 29% to around Rs. 755.0 crore and the operating profits fell by around 20% to Rs. 10-11 crore owing to the Covid-19 disruption. Further, BIGC's subsidiary, BIGCTN, reported operating losses of Rs. 2-3 crore in FY2021 due to under absorption of overheads.

High TOL/TNW due to moderation in net worth on account of losses in subsidiary – The company's TOL/TNW stood high at 3.5 times as on March 31, 2021 (4.1 times in the previous year) and is also likely to remain elevated in FY2022 owing to a moderation in net worth with continued losses in the subsidiary.

High geographical and product concentration risks, exposed to intense competition in the mobile retail industry – Notwithstanding the recent foray of BIGC into Tamil Nadu, the company remains exposed to the geographical concentration risks as 97% of its consolidated revenues are generated from stores in Andhra Pradesh and Telangana. Also, the company faces brand concentration risk as the top three brands, Samsung, Vivo, and Oppo, contributed ~67% to the total sales in 10M FY2021. BigC remains highly dependent on the mobile manufacturers' strategy for the Indian markets, the success of their products and the pace of new launches amid intense competition in the industry. The company faces competition from e-commerce players, other large mobile retail chains and unorganised stores.

Liquidity position: Stretched

BIGC's liquidity is stretched, as reflected in the high working capital utilisation of 83% during the last 18 months ending March 2021 with more than 90% utilisation noted in ten months during this period. The company had a free cash and bank balance of Rs. 6.71 crore as on March 31, 2021. The company has limited debt repayment obligation of Rs. 0.98 crore in FY2022. Absence of any major repayment obligations in the near term, flexibility to reduce the director's remuneration, and availability of need-based unsecured loans from promoters support the liquidity to an extent.

Rating sensitivities

Positive factors – Given the Negative outlook on the rating, an upgrade is unlikely in the near term. ICRA could revise BIGC's outlook to Stable if there is an increase in the company's revenues and earnings along with an improvement in the liquidity position.

Negative factors – ICRA could downgrade BIGC's ratings if there is a sustained pressure in revenues or operating margins. Further, deterioration in the working capital cycle, impacting the company's liquidity position could be a rating trigger. Specific credit metrics that could lead to a downgrade of BIGC's ratings include adjusted interest coverage¹ less than 3.0 times on a sustained basis.

¹ Charges paid on credit cards and commission to financiers considered as a part of selling expense

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings of BIGC, ICRA has considered the consolidated financials of BIGC. List of entities forming part of BIGC's consolidated financials are enlisted in Annexure-2

About the company

BIGC was incorporated in 2002 by Mr. Guru Swamy Naidu, Mr. Balachandrudu, Mr. Balaji and Mr. Kailash as Balaji Watch and Mobiles Private Limited and it was involved in retailing of watches and mobile phones. In 2006, the company discontinued retailing of watches and limited its business to mobile phones. BIGC retails mobile phones and tablets through a chain of multi-brand outlets under the brand name of BigC. As on March 31, 2021, BIGC had 204 retail outlets spread across Andhra Pradesh and Telangana, selling mobile phone brands like Samsung, Xiaomi, Vivo, Oppo, Apple, etc.

Big C Mobiles TN Private Limited was incorporated in 2018 as a subsidiary of BIGC to run a chain of multi-brand mobile phone outlets under the brand name BigC in Tamil Nadu. As on March 31, 2021, the company had 20 outlets across Tamil Nadu selling mobile phones of various brands like Samsung, Vivo, Oppo etc.

Key financial indicators

Big C Mobiles Pvt. Ltd. (Standalone)^	FY2019	FY2020
Operating Income (Rs. crore)	1037.2	1036.3
PAT (Rs. crore)	2.2	0.6
OPBDIT/OI (%)	1.9%	1.5%
PAT/OI (%)	0.2%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	3.2
Total Debt/OPBDIT (times)	2.1	2.9
Adjusted interest Coverage (times)	5.6	3.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

^ICRA has consolidated the BIGC's standalone financials with the BIGCTN's financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					July 12, 2021		Mar 02, 2020	May 31, 2019	
1	Fund based/CC	Long-term	28.00	NA	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB(Positive)	-
2	Non fund based	Short-term	9.00	NA	[ICRA]A3	-	[ICRA]A3	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based/CC	Simple
Non-fund based	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, is available on ICRA's 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	Fund based/CC	-	-	-	28.00	[ICRA]BBB(Negative);
NA	Non-fund based	-	-	-	9.00	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership^	Consolidation Approach
Big C Mobiles TN Pvt. Ltd.	85%	Full Consolidation

Source: Company

^As on March 31, 2020

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