

September 24, 2021

Rocket Kommerce LLP: Ratings upgraded

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|---|
| Long term/Short-term- Fund Based/Non fund based | 520.0 | 520.0 | [ICRA]A-(Stable) /[ICRA]A2+; upgraded from [ICRA]BBB+(Stable)/ [ICRA]A2 |
| Total | 520.0 | 520.0 | |

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Rocket Kommerce LLP, along with other group companies – Valuecart Private Limited (Valuecart), Westbury Holdings Pvt Ltd (Westbury), Wishery Online Pvt Ltd (Wishery), RK WorldInfocom Pvt Ltd (RK World), hereafter collectively referred to as RKL – as they operate in similar lines of business and have strong management linkages.

The rating upgrade factors in the improvement in the RKL's revenues, accruals and debt protection metrics: the revenues grew by 16% in FY2021, the OPBITDA improved to Rs. 38 crore from Rs. 33 crore and on the back of the same. The net debt position of the group remained negative while the interest coverage ratio improved to 5.6 times from 5.1 times during this period. The rating action also factors in RKL's tie up with more brands, including Aditya Birla Fashion and Retail and Shein which will enable diversification as well as improvement in scale and debt protection metrics going forward. The diversification in business tie-ups will reduce the dependence on any single brand or platform for generating revenues.

The ratings continue to factor in the RKL's status as one of the leading online sellers of mobile phones and from its association with reputed and leading brands like OnePlus, Oppo, and Xiaomi. The ratings also take into consideration the prudent working capital management policies of the firm, which enables it to maintain a lean inventory holding of around 7-10 days and lowers funding and inventory risks; Further, the ratings also derive comfort from the absence of any term liabilities, and healthy liquidity position of the group, as reflected by large cash and equivalents and negative net debt position.

The ratings are, however, constrained by the thin profitability margin owing to the limited value addition inherent in the trading operations carried out by RKL. Further, the ability of the Group to scale-up operations is directly linked to the market share and future business plans of brands it is associated with and the same could adversely impact RKL's operations. The ratings are further constrained by intense competition from other sellers on various online platform and offline retailers. Further, RKL is exposed to regulatory risks and any adverse change in regulatory environment can have material impact on the accruals. Over the years, the group has withdrawn capital from these businesses to invest in the other ventures within the Group; the extent of such withdrawals and the impact on the liquidity profile of the Group will be a key monitorable; nevertheless, some of the withdrawn amount in the past has been deployed in fixed assets which is proposed to be utilised as security for availing additional funding lines, improving the group's financial flexibility.

The Stable outlook on the [ICRA]A- rating reflects the long and established track record of the Group in trading and distribution business and the expected diversification in the product portfolio on the back of new tie-ups. Further, ICRA's believes that the Group's accruals are likely to grow steadily on the back of stable consumer demand for these products.

Key rating drivers and their description

Credit strengths

Associated with reputed and leading consumer brands – RKL procures goods directly from popular multinational brands like Xiaomi, Oppo and One Plus, and sells them to the end-users through online platforms. RKL in FY2021 started the aggregation business for managing procurements of garments for ABFRL. Apart from that the group companies are also associated with brands like ABFRL (exclusive online distributor), Shein, and Nokia. It sells these products on various online platforms including Amazon and Flipkart.

Prudent working capital and liquidity management – Rocket Commerce LLP follows prudent working capital management policies, which enables it to maintain a lean inventory holding of around 7-10 days. The inventory risks are further mitigated by the presence of proper inventory monitoring systems, and price support / return-to-vendor mechanism as part of RKL's agreement with its suppliers. RKL's interest coverage ratio is expected to remain comfortable, despite the low profit margins, on account of fast inventory churn. However, given the moderate seasonality involved in the business, working capital requirements peak during festive seasons sales. Nevertheless, presence of adequate undrawn bank lines to fund such peak requirements helps mitigate the risk. RKL's NWC/OI is 0.5% in FY2021 and maintained a cash and bank balance of Rs. 175 crore as on March 31, 2021.

Healthy debt protection metrics – The debt service coverage ratio and interest coverage ratios are 5.5 and 5.6 times respectively. RKL has a negative net debt position of Rs. 77 crore as on March 31, 2021. Further, with no major debt-funded capex plans in the near to medium term, RKL's capital structure, debt coverage metrics are expected to remain comfortable going forward as well.

Credit challenges

Thin profitability margin; revenue vulnerable to business plan of brands – RKL has modest profitability owing to the low value addition and highly competitive market. Going forward, the profitability metrics may also be vulnerable to changes in the platform fees payable to online marketplaces, which in turn may depend on RKL's seller status with the platform. Further, RKL's ability to scale-up its operations in the near-to-medium term is directly linked to the market share and future business plans of brands it is associated with. The low margins may constrain the return metrics in case of any stretch in the working capital cycle from the current levels.

Intense competition from other online sellers and offline retailers – There is high competitive intensity amongst the sellers on various ecommerce platforms and they also compete with offline retailers for share of consumer's wallet. Nonetheless, the group has onboarded more brands over the last twelve months which reflects positively on its track record.

Vulnerability to regulatory changes – In the past couple of years, the e-commerce industry has also witnessed the introduction of several regulations which could have an impact on the operations of the entities involved. RKL's business profile could also be impacted if any regulatory changes impact the RKL's market position or those of the brands and platforms it is associated with.

Liquidity position: Adequate

The RKL's liquidity is adequate supported by presence of sufficient unutilized working capital limits and absence of any term liabilities and capex commitment in future. Going ahead, with increasing scale of operations, the Group is expected to generate adequate cash from operations to meet its financing outflows. The group had cash and bank balances of Rs. 175 crores as on March 31, 2021, including margin money kept with banks for non-fund based limits and the group also generates sizeable interest income on the same.

Rating sensitivities

Positive factors – ICRA could upgrade the firm’s rating if the firm demonstrates significant and sustained growth in consolidated scale of operations, while maintaining healthy capital structure, liquidity profile and debt protection metrics.

Negative factors – Negative pressure on the firm’s rating could arise in case of significant decline in scale, profitability or in case of deterioration in liquidity position or fall in interest coverage to less than 4.0 times. Additionally, any regulatory change which would adversely impact the business profile or large withdrawal of capital for investments in group companies, that significantly impacts the group’s liquidity or leverage position will be negative trigger.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of RKLLP and group companies as mentioned in Annexure-2. |

About the company

Incorporated in 2011, Rocket Kommerce LLP (RKL) is a leading ecommerce retailing company in India. It has partnered with leading ecommerce platforms like Amazon in India since 2014. It currently procures mobile phones from brands like Oppo, Oneplus and Xiaomi and sells them on the Amazon platform. Wishery Online Private Limited was incorporated on September 4, 2015 and commenced operations from FY2019. It carries out distribution business for sellers on Flipkart platform. Westbury Holdings Pvt Ltd was incorporated on March 27, 2007 and commenced operations from January 2021. Westbury is the authorized and exclusive online distributor for Aditya Birla Fashion and Retail, for all of its brands (Peter England, Louis Phillipe, Pantaloons) for various online platforms. Valuecart Private Limited was incorporated on July 11, 2016 and commenced operations from April 2019. Valuecart has also recently signed an agreement with Shein wherein the company would be exclusive online distributor for Shein for 2 years. The group is also involved in the trading and procurement of fabrics through RK Fabrics India Private Limited.

Key financial indicators (audited)

| | RKLLP Standalone | | Consolidated | |
|--|------------------|--------------|--------------|--------------|
| | FY2020 | FY2021 Prov. | FY2020 | FY2021 Prov. |
| Operating Income (Rs. crore) | 1627.1 | 2980.4 | 8746.6 | 10129.1 |
| PAT (Rs. crore) | 14.1 | 19.5 | 23.9 | 30.1 |
| OPBDIT/OI (%) | 1.3% | 1.0% | 0.4% | 0.4% |
| PAT/OI (%) | 0.9% | 0.7% | 0.3% | 0.3% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 2.7 | 2.5 | 5.2 |
| Total Debt/OPBDIT (times) | 1.8 | 2.4 | 1.7 | 2.5 |
| Interest Coverage (times) | 4.2 | 6.0 | 5.1 | 5.6 |

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

Note: Amount in Rs. crore; All calculations are as per ICRA research

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 (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 |
| | | | | | Sep 24, 2021 | | | |
| 1 | Fund based/Non Fund based | Long-term and short term | 520.0 | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]BBB+ (Stable) / [ICRA]A2 | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---------------------------|----------------------|
| Fund based/Non Fund based | 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 analyzing 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/Banker Name | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---------------------|---|------------------|-------------|----------|-------------------------|----------------------------|
| Citibank | LT/ST - Fund based/ Non Fund based-I | NA | NA | NA | 250.0 | [ICRA]A-(Stable)/[ICRA]A2+ |
| HDFC Bank | LT/ST - Fund based/ Non Fund based-II | NA | NA | NA | 200.0 | [ICRA]A-(Stable)/[ICRA]A2+ |
| HSBC Bank | LT/ST - Fund based/ Non Fund based-III | NA | NA | NA | 70.0 | [ICRA]A-(Stable)/[ICRA]A2+ |

Source: Company; LT-Long term; ST- Short term

Annexure-2: List of entities considered for consolidated analysis

| Company Name | RKLLP Ownership | Consolidation Approach |
|---------------------------|-----------------|------------------------|
| Wishery Online Pvt Ltd | - | Full Consolidation |
| Westbury Holdings Pvt Ltd | - | Full Consolidation |
| Valuecart Private Limited | - | Full Consolidation |
| RK Fabrics LLP | - | Full Consolidation |
| RK Fabrics India Pvt Ltd | - | Full Consolidation |
| RK World Infocom Pvt Ltd | - | Full Consolidation |

Source: Company

Note: ICRA has taken a consolidated view of consolidated view of Rocket Kommerce LLP, along with other group companies as they operate in similar lines of business and have strong management linkages.

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