ICRA

November 26, 2021

Panache Digilife Limited: Ratings reaffirmed, outlook on the long-term rating revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	4.00	4.00	[ICRA]BB+; reaffirmed, outlook revised to Negative from Stable
Long-term Fund-Based - Cash Credit	20.00	20.00	[ICRA]BB+; reaffirmed, outlook revised to Negative from Stable
Short-term – Non-fund based – LC/BG	9.00	9.00	[ICRA]A4+; reaffirmed
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the ratings, ICRA has consolidated the business and financial risk profile of Panache Digilife Limited (PDL or the company), its subsidiaries Technofy Digital Private Limited (TDPL) and Wemart Global FZE (Wemart) and its joint venture ICT Infratech Services Private Limited (ICT).

The revision in outlook on PDL's long-term rating factors in the continued pressure on its scale of operations in the current fiscal owing to slower execution of the existing orderbook, due to the adverse impact of the pandemic and lower-than-anticipated recovery in key sectors being indirectly serviced by the company. Timely execution of the existing order book will be critical for improvement in scale and profitability over the near term, as a sizeable part of its revenue booking happens in the second half of the fiscal. Lower absorption of fixed overheads, given the decline in scale, has resulted in a reduction in profit margins and weakening of debt protection metrics in the recent quarters. Moreover, high receivable and inventory levels led to elevated funding requirements, translating into high reliance on external debt and a stretched liquidity position.

The ratings continue to factor in the sizeable corporate guarantee and advances extended by PDL to its wholly-owned subsidiary – TDPL (not a going concern) amid its tight liquidity position. Additionally, PDL's profitability remains vulnerable to raw material price risk and foreign currency risk, since most of the raw material is imported from China and Taiwan. It also faces stiff competition from established as well as unorganised players, which limits its bargaining power with the customers. Although the liquidity position is expected to improve over the medium term with planned sale of leasehold land under TDPL in FY2022, the timeliness of the execution of the sale process and retention of sale proceeds within the company, post meeting the debt obligations will remain critical and be a key monitorable.

The ratings, however, favourably factor in PDL's established operational track record and extensive experience of its promoters in the IT hardware industry, and the company's established relationships with its customers and suppliers, which has resulted in repeat business. Moreover, it also benefits from synergies from technical collaborations with multinational corporations, credible institutions and IT majors for product development as well as its diversified product profile. ICRA notes the company's healthy order book position, which provides revenue visibility. However, some of the major orders have remained non-moving over the past year and timely execution of the moving order book remains crucial.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in IT hardware industry – PDL is a medium-sized IT solutions provider for information and communications technology (ICT), internet of things (IoT) and other IT-related products and services. It is promoted by Mr. Amit Rambhia and Mr. Nikit Rambhia, who are technically qualified with an extensive experience of over two decades in the IT hardware industry.

Technical collaborations with multinational corporations for product development – The company, through its rich experience in the business, has established strong relationships with several IT majors and receives constant technology support from reputed MNCs like Microsoft and Intel through various technical collaborations. PDL is associated with an Indian company (being investee Company of Indian Scientific Innovation Company Ltd., a Section 8 company promoted by Indian Institute of Sciences (IISc) and Society for Innovation and Development), which has jointly developed specialised products under the Project Lyf-Lyn. It constantly innovates and develops new products in the technology space, leveraging on its technological expertise.

Diversified product profile with healthy order pipeline offering healthy revenue visibility – The company's product portfolio includes a wide range of smart computing devices (pc-on-a-stick/pc-on-a-box), smart asset tracking solutions (GPS, NFC, RFID), IoT-enabled retail POS terminals, interactive flat panel displays (IFPDs) and open pluggable systems (OPS), healthy living solutions and pen display solutions under its flagship 'Panache' brand. The products find application across sectors such as education institutes, banks, ecommerce, transportation, hospitality and IT companies. It has a healthy order book position, supported by steady order inflows in the current fiscal, which provides healthy revenue visibility over the near-to-medium term.

Established relationships with end customers and suppliers – The company primarily caters to B2B clients and enjoys established relationships with its major customers owing to long-standing experience of its promoters, which ensures significant repeat orders. The customer base is fairly diversified, with the top five customers contributing to 50% of its total sales. PDL procures its raw materials - mainly microprocessors, CPU, flash sticks, embedded components, storage devices, etc, from approved suppliers in the domestic as well as international markets.

Credit challenges

Modest and declining scale of operations and profitability – The company achieved a revenue of ~Rs. 10.4 crore in Q2 FY2022, indicating a YoY reduction of ~33% and a QoQ decline of ~36%, owing to weaker demand due to the Covid-19 pandemic. Also, on a half yearly basis, PDL achieved an OI of Rs. 26.64 crore in H1 FY2022, indicating an YoY decrease of ~27%. The OPM dipped to ~7.8% in H1 FY2022 from ~15.1% in H1 FY2021, owing to lower absorption of fixed overheads given the contraction in scale. This coupled with high reliance on debt led to weakening of debt protection metrics in the recent quarters. Timely execution of the existing order book will be critical for improvement in its scale and profitability over the near term.

High working capital intensity of operations due to stretched receivables and high inventory levels; high proportion of debtors outstanding over six months – The company's working capital intensity remained high as reflected by NWC/OI of ~58% as on March 31, 2021 and ~84% as on September 30, 2021 (against ~62% as on September 30, 2020) due to stretched receivable days of ~181 days and ~264 days as on March 31, 2021 and September 30, 2021, respectively. It reported a high inventory period of ~97 days and 142 days as on March 31, 2021 and September 30, 2021, respectively. Elevated funding requirements have continued to result in high reliance on external debt and stretched liquidity position.

Stiff competition from established as well as unorganised players – There are minimum entry barriers for manufacturing and assembling of information technology hardware products. The industry is highly competitive with presence of both organised and unorganised players, which restricts the bargaining power with large customers and passing on of price hikes to customers, thus constraining profitability.

Sizeable contingent liability in form of corporate guarantee and advances extended to subsidiary in nascent stage of operations – PDL has extended a corporate guarantee and loans (Rs. 4.12 crore outstanding as on September 30, 2021) to its wholly-owned subsidiary, TDPL. TDPL has no operational revenues at present. It reported net loss of ~Rs. 1.68 crore in FY2021 and has annual debt obligations of Rs. 1.2-1.6 crore over the next three years, being funded through real estate asset sales by TDPL/some funding support from PDL. Any liability devolving on PDL in the future in case of cash flow mismatches or further advances to the subsidiary, which may weaken its already stretched liquidity position, will continue to be monitored.

Vulnerability of profitability to raw material price risk and foreign currency risks – The company typically imports ~40% of its raw material (microprocessors, motherboards, storage devices, embedded components, electronic motors, etc) requirement from China, Taiwan and Singapore, while the remaining materials are sourced through import agents and domestic manufacturers. This exposes its profitability to fluctuations in raw material prices as well as foreign exchange risk, as PDL does not have any active hedging mechanism in place.

Liquidity position: Stretched

PDL's liquidity position is **stretched**, as reflected by modest free cash balance and liquid investments of Rs. 0.63 crore as on October 31, 2021 and almost full utilisation of its fund-based working capital limits. It had long-term borrowings of Rs. 11.9 crore as on September 30, 2021 (excluding unsecured loans from promoters and related parties, including loans of Trechnofy Digital Private limited) towards which it has repayment obligations of Rs. 3.0-3.6 crore p.a. over the next three years. Further, advances (~Rs. 4.1 crore as on September 30, 2021) are yet to be received from its subsidiary, constraining the funds availability for PDL.

Rating sensitivities

Positive factors – An upgrade in the ratings in the near term is unlikely given the Negative outlook. However, healthy recovery in business operations and improvement in liquidity position will result in revision of outlook to Stable.

Negative factors – Negative pressure on PDL' ratings could arise if there is a sustained pressure on its revenue growth, profitability and the liquidity position. Specific credit metrics that may trigger a rating downgrade include interest coverage of less than 2.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology Hardware-related Services Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL. The list of subsidiaries and Joint venture is enlisted in Annexure 2.

About the company

Incorporated in 2007, Panache Digilife Limited is an NSE-listed ICT and IoT devices design, manufacturing, distribution and services company with a vision of 'Making Human Life Easy' by way of constantly innovating in the technology space, headquartered in Mumbai. The company has an ISO 9001:2015 & 14001:2015 certified manufacturing facility at Bhiwandi (Maharashtra) spread over 57,000 sq.ft. with a current capacity to manufacture approx. 5 lakh units per annum.

Key financial indicators (Audited)

Consolidated	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	71.8	78.5	26.6
PAT (Rs. crore)	2.3	2.9	0.2
OPBDIT/OI (%)	9.8%	11.3%	7.8%
PAT/OI (%)	3.2%	3.7%	0.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	2.2	2.2
Total Debt/OPBDIT (times)	6.1	3.2	6.7
Interest Coverage (times)	2.8	2.6	1.5

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

Source: ICRA Research, Company data

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 as of September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					November 26, 2021	Mar 25, 2021	-	-
1	Term Loans	Long-term	4.00	3.04	[ICRA]BB+ Negative)	[ICRA]BB+ (Stable)	-	-
2	Cash credit	Long-term	20.00	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	-	-
3	Non-fund based bank facilities	Short-term	9.00	-	[ICRA]A4+	[ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT Scale: Fund Based - Cash Credit	Simple
LT Scale: Fund Based - Term Loan	Simple
ST Scale: Non-fund based limits	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	Term Loans	Feb-2020	-	Aug-2024	4.00	[ICRA]BB+(Negative)
NA	Cash credit	-	-	-	20.00	[ICRA]BB+(Negative)
NA	Non fund based facilities – LC/BG	-	-	-	9.00	[ICRA]A4+

Source: Panache Digilife Limited

Annexure-2: List of entities considered for consolidated analysis

Company name	PDL's Ownership	Consolidation Approach
Wemart Global FZE	100%	Full Consolidation
Technofy Digital Private Limited	100%	Full Consolidation
ICT Infratech Services Private Limited	50%	Equity Method

Source: Panache Digilife Limited's annual report

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About ICRA Limited:

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