

April 29, 2022

## Poorvika Mobiles Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – OD	49.90	49.90	[ICRA]BBB+ (Stable); reaffirmed
Long-term– Fund Based – TL	44.00	44.00	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Unallocated	6.10	6.10	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in the established presence of Poorvika Mobiles Private Limited (Poorvika) in the South Indian market with significant brand value established on the back of extensive experience of its promoters in the mobile retail industry. ICRA notes the healthy growth in its scale over the years barring FY2021 where the revenues were impacted due to the pandemic induced lockdown. The sales picked up marginally in FY2022 supported by increase in demand and opening up of new stores. The ratings also take comfort from the healthy financial profile and liquidity position in FY2021 which is expected to remain in similar trend going forward.

The rating, however, remains constrained by the company's low operating margins due to the retail nature of operations and intense competition from online and off-line vendors, which has led to limited pricing flexibility and stagnancy in same store revenue growth in the recent past. These apart, the rating continues to remain constrained by its high geographical concentration with around 70% of revenue derived from Tamil Nadu and high product concentration with focus majorly on mobile phones and accessories nonetheless the company is diversifying into different states and into consumer durables as well in recent future.

The Stable outlook reflects ICRA's expectation that Poorvika will continue to benefit from its established presence in the market and wide retail sales network of ~428 outlets across South India.

### Key rating drivers and their description

#### Credit strengths

**Established presence as one of the largest multi-brand retail mobile phone vendors in India** – Poorvika commenced operations in 2004 as a mobile phone retailer and has established itself as a dominant player in the South Indian multibrand mobile retail market with more than 400 stores at present. Operating in the market for more than a decade, the 2 company is among the largest in India with strong brand presence in Tamil Nadu. Strong relationships with major mobile manufacturers lend stability to its volumes in the long term.

**Robust revenue growth since its inception; however, some moderation was observed due to covid** – Since its inception, the company's scale has grown consistently on the back of healthy demand and increasing ASP of mobile phones. In the recent years, a significant shift in the purchasing power of customers in the mobile phone market has aided the year-on-year growth of ASP. The increasing scale has helped Poorvika attain benefits from the scale of operations and enabled it to bargain with suppliers for competitive rates, however in recent year some moderation was observed due to covid which is expected to normalise in FY2022. ICRA notes the increasing penetration of higher ASP mobiles and stable demand expected over the medium-term.

**Healthy financial profile depicted by healthy capital structure and debt coverage metrics** – The company’s financial profile is characterised by a healthy capital structure with Total Debt/TNW at 0.4 times in FY2021 improving from 0.5 times in FY2020, supported by its strong net worth position and repayment of term debts. The coverage indicators continue to be healthy with interest coverage at 9.5 times in FY2021.

### Credit challenges

**Low profitability and adverse impact of pandemic on OI in FY2021** – Poorvika’s operating margin is constrained by the trading nature of operations with minimal value addition. The intense competition in the market from online and offline vendors has resulted in limited pricing flexibility. Nonetheless, ICRA notes the improvement in its operating margins to 2.9% in FY2021 from 2.2% in FY2020, supported by increased demand for mobile phones and other products. The company’s OI for FY2021 was around Rs. 2353.9 crore against revenue of Rs. 2894.5 crore in FY2020, with significant impact on sales in Q1 FY2021 due to the lockdown. Nonetheless, ICRA notes that the sales have normalised post the lockdown period with 9M FY2022 sales of Rs. ~1800.0 crore (on provisional basis).

**Intense competition across product categories limits pricing flexibility and margins** – The mobile retail industry is characterised by stiff competition due to its fragmented nature with a considerable volume share enjoyed by many small unorganised players, continuous expansion undertaken by a few large regional players, and presence of e-commerce players. However, with a strong brand presence and focussed marketing initiatives, Poorvika has been able to maintain a reasonable market position leading to stable volume and earnings over the years, despite limited pricing flexibility.

**High geographical and product concentration risk** – With high focus on mobile phones and accessories, the company’s products concentration risk remains high and any weakening of demand for mobile phones will impact its operational profile. However, no major decline in demand for mobile phones is anticipated in the medium term. The company’s operating revenue is mainly concentrated in Tamil Nadu accounting for around 70% of sales, indicating the high geographical concentration risk. Nevertheless, it’s improving presence in other states like Pondicherry, Maharashtra and Kerala along with launch of various other products and diversification into other consumer durables mitigates the risk to an extent.

### Liquidity position: Adequate

Poorvika’s liquidity position remains adequate as characterised by healthy cash and cash equivalents of around Rs. 15.4 crores and working capital buffer of ~Rs. 70.0 crore dropline overdraft facility available in December 2021. Given healthy demand for Poorvika’s products in the market, company’s cash accruals from operations are expected to be healthy and aid in meeting its debt obligations.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the company’s rating if it is able to improve its profitability metrics thereby improving its debt coverage metrics.

**Negative factors** – Negative pressure on the ratings could arise if the company’s capital structure and working capital/liquidity profile witness any significant deterioration. ICRA can also downgrade the ratings if there is any significant debt funded capex leading to stretched debt protection metrics. Specific metric TOL/TNW of more than 2.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Retail Industry</a>
Parent/Group Support	Not Applicable

<b>Consolidation/Standalone</b>	For arriving at the ratings, ICRA has considered the standalone financials of Poorvika.
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## About the company

Poorvika Mobiles Private Limited was incorporated in 2004 by its directors Mr. Uvaraj Natarajan and Mrs. Kanni Uvaraj, with its headquarters located in Chennai. It is involved in multi-brand retail trading of mobile phones and connections, accessories, recharges and internet data cards. Poorvika started its operation with the idea of amalgamating the look, touch and feel of outlets with the choice, convenience and elegance that modern retail provides. The company deals with all leading mobile handset manufacturers such as Apple, Nokia, Samsung, Sony, LG, One Plus, Xiaomi, Oppo, Vivo, etc, directly through its own retail network. Till date, Poorvika has set up over 400 mobile outlets across Tamil Nadu, Kerala, Karnataka, Maharashtra and Pondicherry and employs over 3,400 well-trained professionals.

## Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	2894.5	2353.9
PAT (Rs. crore)	19.3	24.3
OPBDIT/OI (%)	2.2%	2.9%
PAT/OI (%)	0.7%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.8
Total Debt/OPBDIT (times)	1.1	1.1
Interest Coverage (times)	7.8	9.5

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

## 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 Dec 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund based – OD	Long-term	49.90	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Stable)
2	Fund Based – TL	Long-term	44.00	19.74	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Stable)
2	Unallocated	Long-term	6.10	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – OD	Simple
Long-term– Fund Based - TL	Simple
Unallocated	NA

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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	October 2020	NA	FY2026	12.00	[ICRA]BBB+ (Stable)
NA	Term Loan-II	August 2018	NA	FY2024	32.00	[ICRA]BBB+ (Stable)
NA	Dropline OD	NA	NA	FY2027	49.90	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA		6.10	[ICRA]BBB+ (Stable)

Source: Company

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

NA

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