

March 27, 2024

Rocket Kommerce LLP: Ratings downgraded to [ICRA]BBB+(Stable)/[ICRA]A2 from [ICRA]A-(Stable)/[ICRA]A2+

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 working capital facilities	520.00	410.00	[ICRA]BBB+(Stable)/[ICRA]A2; downgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	520.00	410.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings downgrade for the bank lines of Rocket Kommerce LLP (RKLLP) factor in the Group's¹ increasing working capital requirements, along with thin operating margins leading to moderation in debt coverage metrics. The interest cover, PBDIT²/interest is likely to remain moderate around 2.2 times in FY2024 (PY: 2.3 times) and 2.9 times in FY2025. The working capital borrowings are estimated to increase due to rise in inventory levels on account of growth in the number of segments/products handled. Consequently, the Group's total debt is expected to remain high at around Rs. 665 crore as of March 2024 (PY: Rs. 762 crore). RKLLP's TOL/TNW is also likely to remain high. However, the inventory is largely moving and in case of slow-moving goods, the brands and the entity have an arrangement for dilution of stock through discounts thereby mitigating write-offs. The Group's operating margins are thin at around 0.6-0.8% in FY2024 and FY2025. The utilisation of the working capital lines remains volatile, peaking during the festive season, sales events or any launches and managing the liquidity position during peak season will be critical. The ratings are further constrained by the intense competition faced by RKLLP from other sellers on the online marketplace and from offline retailers. Further, the Group is exposed to regulatory risks and any adverse changes in the regulatory environment can have a material impact on the revenues and 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 Over the years, the Group has withdrawn capital from these businesses to invest in the other ventures within the Group.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 remain a key monitorable.

The ratings positively factor in the estimated increase in the Group's operating income (OI) by 36-40% in FY2024 (PY: Rs. 15,532 crore) and by 14-16% in FY2025, supported by growth in sales from new product segments such as FMCG and fabrics, along with its established presence on multiple prominent e-commerce platforms in the country. The sanctioned working capital limits supporting its operations, and a prudent working capital management shall remain a key monitorable. Further, with diversification of its revenue profile, the dependence on mobile phones and electronic appliances has reduced as FMCG and lifestyle products now contribute towards majority of the revenue. The Group has been able to partner with reputed and leading brands like Realme, Oneplus, Xiaomi, etc, in the mobile handset segment. It has partnered with P&G, Unicharm, HUL, Reckitt Benckiser, L'Oréal etc. in the FMCG segment and with Aditya Birla Fashion, Arvind Clothing, Nike, Jack & Jones, etc, in the lifestyle segment.

The Stable outlook on the [ICRA] BBB+ rating reflects ICRA's expectation of an improvement in OI with diversification in the product portfolio. The Group will continue to benefit from its established relationship with brands and its experience in the distribution business, and ICRA expects RKLLP to maintain its working capital intensity.

¹ ICRA has considered consolidated financials of Rocket Kommerce LLP, along with other group companies –RK World Infocom Private Limited, Valuecart Private Limited, Westbury Holdings Private Limited, Wishery Online Private Limited, Ventura Trading Private Limited, RK Fabrics (India) Private Limited, Rocket Kars LLP, collectively referred to as RKL or the Group as they operate in similar line of business and have strong managerial and financial linkages and common treasury team.

² PBDIT=OPBDITA + non-operating income

Key rating drivers and their description

Credit strengths

Healthy scale of operations of Group; estimated increase in OI in FY2024 and FY2025 – The Group's OI increased by 36-40% in FY2024 (PY: Rs. 15,532 crore) and by 14-16% in FY2025, supported by growth in sales from new product segments such as FMCG and fabrics, along with its established presence on multiple prominent e-commerce platforms in the country.

Association with reputed and leading consumer brands – Over the years, the Group has been able to partner with reputed and leading brands like Realme, Oneplus, Xiaomi, etc, and in the mobile handset segment. It has collaborated with P&G, Unicharm, HUL, Reckitt Benckiser, Loreal, etc, in the FMCG segment and with Aditya Birla Fashion, Arvind Clothing, Nike, Jack & Jones, etc, in the lifestyle segment.

Increasing diversification across product categories – RKLLP is one of the leading players in the e-commerce platform with presence in over 800 brands and a large network of dealers. It offers a wide array of products in the FMCG segment, mobile handsets and electronic appliances. With diversification of its revenue profile, the dependence on mobile phones and electronic appliances has reduced as FMCG and lifestyle products contribute towards majority of revenue.

Credit challenges

Increasing working capital requirements and moderation in debt coverage metrics – The Group's increasing working capital requirements, along with thin operating margins led to moderation in debt coverage metrics. The interest cover, PBDIT /interest is likely to remain moderate at around 2.2 times in FY2024 (PY: 2.3 times) and 2.9 times in FY2025. The working capital borrowings are estimated to increase due to rise in inventory levels on account of growth in the number of segments/products handled. Consequently, the Group's total debt is expected to remain high at around Rs. 665 crore as of March 2024 (PY: Rs. 762 crore) and RKLLP's TOL/TNW is likely to remain high. However, the inventory is largely moving and in case of slow-moving goods, the brands and the entity have an arrangement for dilution of stock through discounts thereby mitigating write-offs. The utilisation of the working capital lines remains volatile, peaking during the festive season, sales events or any launches and managing the liquidity position during peak season will be critical.

Thin profitability margins – The Group's operating margins are thin at around 0.6-0.8% in FY2024 and FY2025. RKLLP's profitability margins are modest on account of the low value addition, inherent to the nature of the trading business.

Intense competition and regulatory risks in e-commerce business – The ratings are constrained by the intense competition faced by RKLLP from other sellers on the online marketplace, and from offline retailers. Further, the Group is exposed to regulatory risks and any adverse changes in the regulatory environment can have a material impact on the revenues and accruals.

Liquidity position: Adequate

The Group's liquidity is adequate. Its free cash and investments balances stood at Rs. 15 crore as on December 31, 2023. The average utilisation of fund-based limits at a standalone level stood at 55% for RKLLP during the 14-month period that ended in November 2023. In absence of any term liabilities and capex commitment in future, the Group is expected to generate adequate accruals to meet its debt servicing requirements. However, managing the liquidity position during the peak season/sales period (Q3) will be critical.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of a significant and sustained increase in scale of operations and profitability, along with an improvement in its debt protection metrics and liquidity position. A specific credit metric that could lead to an upgrade is PBDIT/interest coverage ratio of over 4.0 times on a sustained basis.

Negative factors – Pressure on the firm’s ratings could arise in case of a decline in the company’s revenue or profitability, or a further increase in the working capital intensity of operations. Inability of the company to improve its liquidity position on a sustained basis will also affect the ratings. Further, deterioration in PBDIT/interest ratio, on a sustained basis, will be credit negative. Additionally, any regulatory change which would adversely impact the business profile or leverage position will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Retail
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of Rocket Kommerce LLP, along with other 7 group companies: RK World Infocom Private Limited, Valuecart Private Limited, RK Fabrics(India) Private Limited, Westbury Holdings Private Limited, Wishery Online Private Limited, Ventura Trading Private Limited, Rocket Kars LLP, as these entities are involved in similar business operations, have operational synergies, common management common treasury team, and have financial linkages.

About the company

Rocket Kommerce LLP (RKLLP), incorporated in 2011, is a leading e-commerce retailing company in India. It has been partnering with e-commerce 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. Also, in October 2020, it had entered into an agreement with Aditya Birla Fashion and Retail Private Limited to engage in the business of procurement and distribution of textiles, fabrics, apparel and other products. However, this is going to be entirely transferred to another group entity (Ventura Trading) in FY2025.

Wishery Online Private Limited was incorporated on September 4, 2015, and commenced operations from FY2019. It carries out the distribution business for sellers on the platforms like Flipkart, Myntra. It also carries out the distribution business for sellers on the Flipkart platform (B2B). Westbury Holdings Pvt Ltd was incorporated on March 27, 2007, and commenced operations from January 2021. Westbury is the authorised and exclusive online distributor for Aditya Birla Fashion and Retail for all its brands (Peter England, Louis Phillipe, Pantaloons) for various online platforms such as Flipkart, Myntra, Ajio. Valuecart Private Limited was incorporated on July 11, 2016 and began operations from April 2019. It procures goods from foreign brands and sells them on Amazon. RK Fabrics(India) Private Limited, formed in 1980, imports fabrics from Japan and China and sells (trading) to various domestic companies. In September 2023, it started two own brands ‘Made for your’ and ‘Bergamo’ in mens shirts (B2C), which are domestically manufactured under contract manufacturing. The Group is also involved in the trading and procurement of fabrics through RK Fabrics India Private Limited. Ventura Trading Private Limited started its operations from May 2022 and procures fabric (for Arvind Ltd.) and finished products (for Arvind Fashion Ltd.) from various small vendors and supplies the same depending upon the requirement to Arvind Group.

RK World Infocom Private Limited, incorporated in 2008 began as a distributor for Nokia in July 2003 (through the proprietorship concern of Mr. Ramesh Kumar Shah), however, same has been closed on date. Since Q4 FY2022, the company started to operate as an online retailer on Amazon Marketplace, selling FMCG products. RKWIPL will source its products from vendors like P&G, HUL, Reckitt Benckiser, L’Oreal, Unicharm, Himalaya, J&J, Nivea, etc.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	2,851.8	2,530.3	10,218.4	15,531.9
PAT	13.3	10.3	38.2	41.8
OPBDIT/OI	1.0%	0.9%	0.4%	0.6%
PAT/OI	0.5%	0.4%	0.4%	0.3%
Total outside liabilities**/Tangible net worth (times)	6.2	3.1	12.2	15.54
Total debt/OPBDIT (times)	8.3	3.5	12.5	8.3
Interest coverage (times)	2.3	2.1	2.8	2.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; standalone audited financials added manually; **includes unsecured loans of Rs. 17.7 crore in FY2023 (Rs. 16.5 crore in FY2022) at standalone level and Rs. 117 crore in FY2023 (Rs. 78.5 crore in FY2022) at consolidated level.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Current rating (FY2024)	Chronology of rating history for the past 3 years			
				Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				March 27, 2024	Mar 31, 2023	Dec 30, 2022	Sep 24, 2021	Nov 16, 2020
1 Fund-based/Non-fund based working capital facilities	Long term	410.00	--	[ICRA]BBB+ (Stable)/	[ICRA]A- (stable)/	[ICRA]A- (Stable)/	[ICRA]A- (Stable)/	[ICRA]BBB+ (Stable) /
	short term			[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

*Sub limit of EPC limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund based working capital facilities	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 are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund based working capital facilities	NA	NA	NA	135.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Fund-based/Non-fund based working capital facilities	NA	NA	NA	200.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Fund-based/Non-fund based working capital facilities	NA	NA	NA	75.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	AGGPL's Ownership	Consolidation Approach
Wishery Online Private Limited	-	Full Consolidation
Ventura Trading Private Limited	-	Full Consolidation
Westbury Holdings Private Limited	-	Full Consolidation
Valuecart Private Limited	-	Full Consolidation
RK Fabrics (India) Private Limited	-	Full Consolidation
RK World Infocom Private Limited	-	Full Consolidation
Rocket Kars LLP	-	Full Consolidation

Source: Group, ICRA Research

ANALYST CONTACTS

Rajeshwar Burla
91 040 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
91 040 6939 6427
anupama.reddy@icraindia.com

Neha Mittal
+91 124 454 5365
neha.mittal@icraindia.com

Mrinal M Nayak
91 80 4332 6407
mrinal.nayak@icraindia.com

Devansh Jain
+91 124 454 5856
devansh.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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