

November 10, 2017

Big C Mobiles Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	9.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Term Loan	1.18 (revised from 2.00)	
Unallocated	1.82 (enhanced from 1.00)	
Total	12.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus)¹ to the Rs. 9.00-crore² cash credit, Rs. 1.18-crore term loans and Rs. 1.82-crore unallocated limits of Big C Mobiles Private Limited (BMPL). The outlook on the long-term rating is Stable.

Rationale

The rating action factors in increase in scale of operations leading to improved cash accruals, comfortable gearing and healthy coverage indicators. The rating considers BMPL's status as the largest mobile handset retailer in Andhra Pradesh and Telangana states with 182 stores and experience of the promoters in the mobile retailing business. ICRA notes the favourable working capital cycle, inherent to the nature of business. The rating, however, continues to remain constrained by the low operating margin in mobile trading business which is further pressurized on account of high competitive intensity in the business. The operating margins of the company declined from 2.81% in FY2016 to 2.50% in FY2015 on account of increased selling expenses and higher salaries paid to directors. ICRA notes that BMPL generates majority of its revenue from Andhra Pradesh and Telangana states, exposing it to significant geographical concentration risk. Also, the vendor concentration is high with the top three contributing more than 60% of the total sales in FY2017.

Going forward, the company's ability to improve its margin amidst intense competition from other retailers, maintain the capital structure and coverage indicators given the capex plans in the near term, and manage its working capital requirements would be the key rating sensitivities going forward.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- **Significant experience of the management** - The promoters have more than a decade of experience in the mobile retailing business leading to established relationships with suppliers.
- **Strong market position in the region** – BMPL is the largest retailer of mobile phones in Andhra Pradesh with around 182 stores. The number of stores increased from 139 in FY2017 to 182 in 7M FY2018. The company is expected to expand further by opening ~20 more stores in FY2018, substantially increasing its scale of operations.
- **Healthy financial profile** - The company witnessed a healthy revenue growth of xx% in FY2017 with addition of 20 new stores and healthy demand from existing stores. The company's financial profile improved in FY2017 with decrease in working capital borrowings and increase in net worth. The company had comfortable gearing of 0.09 times as on March 31, 2017 and healthy coverage indicators with an interest coverage ratio of 4.28 times and Total Debt/OPBDITA of 0.12 times for FY 2017.
- **Low working capital intensity** - The working capital intensity of the company is low, with NWC/OI of 2% in FY2017 as the company purchases on credit and sells on cash basis and has been broadly able to match inventory and creditors.

Credit Weaknesses

- **Low profitability owing to the nature of business** – Low margins are inherent to the mobile retailing industry. In FY2017, the operating margins decreased to 2.50% owing to increase in selling expenses and higher salaries paid to the directors. The company reported a net margin of 1.07% in FY2017.
- **High geographic concentration** – BMPL's operations are geographically concentrated with all its stores confined to the states of Andhra Pradesh and Telangana. However, its stores are spread across all the districts of the two states.
- **High vendor concentration** - BMPL has been selling mobile handsets and tablets for all the major brands available in India through its retail outlets. However, the top 3 brands – Samsung, Oppo & Vivo - contributed more than 60% of the total sales in FY2017.
- **High competitive intensity in the industry**- India has a highly fragmented mobile retail ecosystem with players comprising of other mobile retailers, large format electronic retailers, unorganized players and e-tailers. The market faces stiff competition from the incumbents in the form of pricing, discounts and freebies extended to customers.

Analytical approach: To arrive at the ratings, ICRA has performed a detailed evaluation of the issuer's business and financial risks

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the Company:

BMPL was incorporated in 2002 by Mr. Guru Swamy Naidu, Mr. Balachandrudu, Mr. Balaji and Mr. Kailash as Balaji Watch and Mobiles Private Limited and was engaged in retailing of watches and mobile phones. In 2006, the company discontinued the retailing of watches and limited its business to mobile phones retail. BMPL is majorly into retailing of mobiles phones and tablets through a chain of multi brand outlets under the brand name of 'BigC'. As on October 31, 2017, BMPL has a total of 182 retail outlets spread across Andhra Pradesh and Telangana selling mobile phones of brands such as Samsung, Vivo, Oppo, Apple, Celkon, Micromax, LG etc.

Key Financial Indicators:

Particulars	FY2016	FY2017
Operating Income (Rs. crores)	675.13	719.21
Net Profit (Rs. crores)	7.82	7.71
OPBITDA/OI (%)	2.81%	2.50%
RoCE (%)	59.70%	61.68%
Total Debt / Tangible Net worth (times)	0.61	0.09
Total Debt / OPBITDA (times)	0.56	0.12
Interest coverage (times)	4.69	4.28
NWC/OI (%)	3%	2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	FY2017	FY2015	FY2014
				November 2017	April 2016	December 2014	September 2013
1	Cash Credit	Long Term	9.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	Long Term	1.18	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
4	Unallocated	Long Term	1.82	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	9.00	[ICRA]BBB (Stable)
Term Loan	2015	-	2020	1.18	[ICRA]BBB (Stable)
Unallocated	-	-	-	1.82	[ICRA]BBB (Stable)

Source: Big C Mobiles Private Limited (BMPL)

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