

December 04, 2017

Flash Distribution Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Non-Fund based	20.96	[ICRA]A4; Outstanding
Cash Credit - Sublimit	(15.00)	[ICRA]BB(Stable); Outstanding
Fund based	8.00	[ICRA]BB(Stable); Assigned
Unallocated	29.04 (enhanced from 0.04)	[ICRA]BB (Stable); Assigned/Outstanding
Total	58.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 8.00 crore fund based limits and Rs.29.04 crore (enhanced from Rs. 0.04 crore) unallocated limits of Flash Distribution Private Limited (FDPL). ICRA has a long-term rating of [ICRA]BB outstanding for the Rs. 15.00 crore cash credit (sublimit) facility and a short-term rating of [ICRA]A4 (pronounced ICRA A four) outstanding for the Rs. 20.96 crore non-fund based limits of FDPL. The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation positively factor in the established position of the company as sole authorized distributor for products of Gionee Communication Equipment Co. Ltd (Gionee) in the South Indian states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala and Pondicherry and Xiaomi Inc. (Xiaomi) for the state of Telangana (except Hyderabad), Andhra Pradesh and Tamil Nadu. The ratings also factor in the healthy revenue growth in 7M FY2018, experience of promoters in mobile distribution and retail industry, and the company's potential to scale up the business in the immediate term. The ratings are however constrained by the moderate financial risk profile of the company as reflected by thin margins, high gearing, and stretched coverage indicators. The ratings are further constrained by high vendor concentration with 53% of the total revenue in FY2017 derived from Gionee. ICRA also notes the highly competitive nature of the industry with growing scale and presence of other mobile phone manufacturers.

Going forward, the company's ability to increase its revenues and profitability with increase in the capital structure and coverage metrics while effectively managing its working capital requirements remains the key credit rating drivers.

Key rating drivers

Credit Strengths

- **Sole authorised distributor for Gionee mobile products in South India and Xiaomi mobiles in Telangana, AP and TN provides healthy revenue base for the company** - The company is the sole authorised distributor for Gionee mobiles in South India and Xiaomi smart phones in the state of Telangana (except Hyderabad), Andhra Pradesh and Tamil Nadu. FDPL is also the authorised distributor for Samsung for the online market in the region. The company is also into distribution of other mobile brands like Apple, Celkon and Micromax.
- **Experience of the promoters in the mobile distribution and retail industry and demonstrated ability to grow the business** – The promoters own businesses which have been in the mobile industry and retail industry for over two decades. The company also has an established network of regional distributors (RD) and retailers spread across five states. The company has established customer base including retailers like Poorvika Mobiles Private Limited, Sangeetha Mobiles Private Limited etc. FDPL also has tie ups with ecommerce companies to handle online sales.
- **Healthy revenue growth in 7M FY2018** – The sales volume increased after the distribution agreement with Xiaomi was finalised in March 2017. FDPL has reported sales of Rs. 624.47 crore as on October 31, 2017.

Credit Weaknesses

- **Vendor concentration risk**– The top two vendors contributed 75% of the total revenues in FY2017 and ~94% in 7M FY2018. Given the highly competitive and unpredictable nature of the sector, the revenue of the company would be impacted if demand for the vendor's mobile phones were to go down.
- **Low profitability of the business inherent to the trading nature** – The operating margin of FDPL had been low at 0.97% in FY2017 given the trading nature of business.
- **Stretched capital structure and coverage indicators** - The total debt as on March 31, 2017 consists majorly of working capital borrowings of Rs 22.00 crore and interest free unsecured loans from promoters of Rs 10.58 crore. The company's gearing has been high at 4.80 times as on March 31, 2016 owing to high borrowings and low net worth. Low profitability and high debt levels affected the company's coverage indicators in FY2017 – interest coverage at 2.12 times, Total Debt/OPBDITA at 10.99 times and NCA/Total Debt at 37%.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the Company:

Flash Distribution Private Limited (FDPL) was incorporated as a private limited company in 2016 with an aim to provide distribution solutions for mobile phone brands across Andhra Pradesh, Tamil Nadu, Telangana, Karnataka, Kerala and Pondicherry. The company was appointed as the sole authorized distributor for Gionee products in South India during 2016. It is also the sole authorized distributor for Xiaomi smart phones in Telangana (except Hyderabad), Andhra Pradesh and Tamil Nadu. FDPL is also engaged in distribution of mobile phones of other brands such as Apple, Samsung, Celkon and Micromax.

Key Financial Indicators: (Audited)

Particulars	FY2017
Operating Income (Rs. crores)	305.02
Net Profit (Rs. crores)	0.79
OPBITDA/OI (%)	0.97%
RoCE (%)	14.79%
Total Debt / Tangible Net worth (times)	4.80
Total Debt / OPBITDA (times)	10.99
Interest coverage (times)	2.12
NWC/OI (%)	12%

Source: AM and ICRA research; OPBITDA: Operating profit before interest depreciation and tax

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 December 2017	FY2017	FY2016	FY2015
					March 2017	-	-
1	Non-Fund Based	Short Term	20.96	[ICRA]A4	[ICRA]A4	-	-
2	Cash Credit – Sublimit	Long Term	(15.00)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
3	Fund based	Long Term	8.00	[ICRA]BB (Stable)	-	-	-
4	Unallocated	Long Term	29.04	[ICRA]BB (Stable)	[ICRA]BB (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
Non-Fund Based	-	-	-	20.96	[ICRA]A4
Cash Credit – Sublimit	-	-	-	(15.00)	[ICRA]BB(Stable)
Fund based	-	-	-	8.00	[ICRA]BB(Stable)
Unallocated	-	-	-	29.04	[ICRA]BB(Stable)

Source: Flash Distribution Private Limited (FDPL)

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