Sangeetha Mobiles Private Limited

October 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Overdraft	1.0	1.0	[ICRA]BBB+ (Stable); Outstanding
Fund based-Working Capital Limits	21.0	21.0	[ICRA]A2; Outstanding
Fund Based/Non-Fund Based Interchangeable Limits	38.0	38.0	[ICRA]A2; Outstanding
Fund Based/Non-Fund Based Interchangeable Limits	-	20.0	[ICRA]BBB+ (Stable)/[ICRA]A2; Outstanding
Unallocated Limits	40.0	20.0	[ICRA]BBB+ (Stable)/[ICRA]A2; Outstanding
Total	**100.00**	**100.00**	

Rating action

ICRA has ratings outstanding at [ICRA]BBB+/A2 (pronounce ICRA triple B plus/ A two) for the Rs.100.00-crore[1] bank facilities of Sangeetha Mobiles Private Limited (SMPL). The outlook on the long-term rating is 'Stable'.

Rationale

The rating action continues to derive comfort from the healthy revenue growth during FY2017 and 9MFY2018 in SMPL's operating income with inclusion of Xiaomi in its product portfolio, coupled with the addition of new stores and increase in average selling price of mobile phones. The rating also factors in SMPL's strong financial profile characterised by conservative capital structure and comfortable coverage indicators with steady accruals supporting the net worth and the absence of any major debt-funded capital expenditure plans. The ratings also draw comfort from the company's established presence and long-standing experience of the promoters in the mobile phone retailing business, SMPL's status as one of the key mobile hand-set retailers in South India and its long-term association with top mobile phone brands and national distributors which is expected to aid business growth.

The rating, however, remains constrained by the thin margins inherent in the retail business on account of the trading nature of operations and intense competition across markets. The rating also considers high revenue dependence of the company on the South Indian market (particularly Karnataka) exposing it to geographical concentration risk and high product concentration risk with top-3 brands accounting for 69% of the total sales of the company during 9MFY2018. With the ongoing expansion plan, increasing scale of operations and the seasonal nature of business, the company's ability to manage its cash flows as well as the working capital requirements will be key rating sensitivities. In addition, the company's ability to execute its planned capex in a timely manner, and its ability to generate commensurate returns from the new stores remains to be seen.

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[1] *100 lakh = 1 crore = 10 million*

Outlook: Stable

The stable outlook reflects ICRA's expectation that the group will continue to benefit for its established presence in the market and promoters' experience in the industry. The outlook may be revised to 'Positive' if the company maintains the healthy revenue growth trend while maintaining its profitability and coverage indicators and efficiently managing its working capital requirements. Conversely, the outlook may be revised to 'Negative' with any significant debt-funded capital expenditure or higher-than-expected increase in short-term borrowings for managing temporary cash flow mismatches, leading to weakening in the liquidity position of the company.

Key rating drivers

Credit strengths

Established presence and long-standing experience of the promoters in the mobile phone retailing business- SMPL commenced operations in 2008 as a mobile retailer and has been adding stores year on year, primarily into the South India mobile retail market. The company enjoys credible working relationships with all marquee names in the mobile handset industry and has won many accolades from all the Original Direct Manufacturers (ODM's).

Healthy increase in sale driven primarily by increase in ASP (Average Selling Price) and rise in volumes coupled with increase in number of stores - SMPL has witnessed a healthy increase in sales from Rs. 660.8 crore in FY2016 to Rs. 1145 crore in 9MFY2018. This increase in sales can be primarily attributed to inclusion of Xiaomi to its product portfolio which contributed to ~32% of its sales during 9MFY2018 and increase in ASP of phones from Rs. 7657 in FY2016 to Rs. 9269 during 9MFY2018, a healthy 21% increase. The ASPs of all the products of the company have increased due to rollout of 4G and data networks which is pushing up the average selling price of smartphones.

Strong market position in the region – SMPL is one of the largest retailer of mobile phones in South India with a total of 434 stores spread across the states of Karnataka, Tamil Nadu, Andhra Pradesh, Telangana and Gujarat. The number of stores increased from 315 in FY2017 to 434 in 9M FY2018. The company is expected to expand further by opening ~200 more stores in FY2019, thereby substantially increasing its scale of operations.

Financial profile characterized by healthy capital structure and coverage indicators - The company has comfortable capital structure owing to low reliance on external debt as indicated by a gearing of 0.5 times as on March 31, 2017. The coverage indicators also remain healthy as indicated by interest coverage of 4.2 times and Total debt/OPBITDA of 0.8 times during FY2017.

Credit challenges

Low profitability owing to trading nature of operations - The profitability levels of the company has remained low due to trading nature of the business, albeit the same witnessed improvement during FY2017 with operating margins improving from 3.1% in FY2016 to 5.3% in FY2017 with direct procurement from ODM's. However, the same is expected to moderate going forward with decline in margins from Chinese manufacturers which contributed to ~61% of sales of SMPL during 9MFY2018.

Aggressive capex plans in the near term to expand footprint - The company has incurred capex of Rs. 26.1 crore in FY2017 towards opening of new stores (110 stores) during the period and purchase of land bank for shifting the head office. ICRA notes that SMPL continues to remain in the growth phase with the management indicating addition of 200-245 stores on an annual basis in the next two fiscals. The company's plans to undertake significant capital expenditure every year renders it dependent on good performance of its stores, given the significant funding for the capex is envisaged through internal accruals.

High product concentration - High product concentration risk as top three brands contributed to more than two-third of revenues during 9MFY2018. The company has high dependence on vendor's strategy for the Indian markets, the success of their products and pace of new launches in a highly competitive industry scenario.

High geographic concentration risk - SMPL's operations are geographically concentrated with almost 99% of its stores confined to the states of South India thereby exposing it to high geographic concentration risks.

Intense competition across product categories limits pricing flexibility and margins; strong brand presence and focussed marketing initiatives support footfalls - The mobile retail industry is characterized by high competitive intensity due to its fragmented nature with a considerable volume share enjoyed by many small unorganized players, continuous expansion undertaken by a few large regional players, presence of e-commerce players and relatively low brand loyalty existing among consumers. However, due to its strong brand presence and its focused marketing initiatives, SMPL has been able to maintain a healthy market position leading to stable volumes and earnings over years, despite limited pricing flexibility.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for retail entities

About the company:

Incorporated in 2008, Sangeetha Mobiles Private Limited ("SMPL"/the company) is engaged in multi-brand retail business of mobile handset sales in the state of Karnataka, Tamil Nadu, Andhra Pradesh and Telangana. SMPL deals with all leading mobile handset manufacturers such as Apple, Samsung, Xiaomi, Sony, LG, HTC, Vivo, Gionee and Lava among others through its retail network of ~434 stores across South India. Mr. Subhash Chandra, the Managing Director along with his family and Group company, holds 100.0% equity stake in SMPL as on March 31, 2017. The company has one subsidiary, Anu Distributors India Private limited (50% equity stake - SMPL) engaged in mobile distribution business across South India.

In FY2017, the company reported a net profit of Rs. 1.2 crore on an operating income of Rs. 63.7 crore compared to a net profit of Rs. 1.0 crore on an operating income of Rs. 64.2 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	660.8	880.2
PAT (Rs. crore)	3.4	16.8
OPBDIT/ OI (%)	3.1%	5.3%
RoCE (%)	16.6%	37.4%
Total Debt/ TNW (times)	0.6	0.5
Total Debt/ OPBDIT (times)	1.6	0.8
Interest coverage (times)	2.0	4.2
NWC/ OI (%)	7.7%	8.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Date & Rating in FY2019 Oct 2018	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 Dec, 2016	Date & Rating in FY2016 Jun, 2015
1	Fund Based/Non-Fund Based Interchangeable Limits	Long/Short Term	20.0	[ICRA]BBB+ (Stable)/ [ICRA]A2		-	[ICRA]BBB (Stable)/ [ICRA]A3+	-
2	Fund Based- Overdraft	Long Term	1.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	[ICRA]BBB (Stable)
3	Fund based-Working Capital Limits	Short Term	21.0	[ICRA]A2	[ICRA]A2	-	[ICRA]A3+	-
4	Fund Based/Non-Fund Based Interchangeable Limits	Short Term	38.0	[ICRA]A2	[ICRA]A2	-	[ICRA]A3+	-
5	Unallocated Limits	Long/ Short Term	20.0	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based- Overdraft	-	-	-	1.0	[ICRA]BBB+ (Stable)
NA	Fund based-Working Capital Limits	-	-	-	21.0	[ICRA]A2
NA	Fund Based/Non-Fund Based Interchangeable Limits	-	-	-	38.0	[ICRA]A2
NA	Fund Based/Non-Fund Based Interchangeable Limits	-	-	-	20.0	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Unallocated Limits	-	-	-	20.0	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: SMPL

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About ICRA Limited:

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