Flash Distribution Private Limited

January 08, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based	8.00	36.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable)
Interchangeable	(15.00)	0.00	-
Non-Fund Based	20.96	40.00	[ICRA]A4+; Upgraded from [ICRA]A4
Unallocated	29.04	2.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable)
Total	**58.00**	**78.00**	

Rationale

The ratings upgrade takes into account healthy revenue growth of ~234% from Rs. 305.02 crore in FY2017 to Rs. 1017.46 crore in FY2018 driven by significant ramp-up in Xiaomi sales on the back of improved distribution network spanning more than 800 regional distributors and retail outlets. The ratings derive comfort from FDPL's established position as the sole authorized distributor for Xiaomi smartphones in Telangana, Andhra Pradesh and Tamil Nadu. Xiaomi has been expanding its presence in the Indian smartphone market and had market share of 27.3% in Q3 2018. The ratings continue to favourably factor in the vast experience of the management in the mobile distribution and retail industry.

The ratings are however constrained by the company's stretched capital structure and high overall indebtedness as reflected by TOL/TNW of 7.19 times as on March 31, 2018. The ratings are further constrained by high vendor concentration with 69% of the total revenue in FY2018 derived from Xiaomi. The rating also considers the highly competitive nature of the industry with growing scale and presence of other mobile phone manufacturers. ICRA also notes that the company has a proposed capex of Rs. 21.0 crore over the next three years and funding for the project would be a key rating monitorable.

Outlook: Stable

The stable outlook reflects ICRA's expectation that FDPL will continue to benefit from the established market position of Xiaomi and extensive experience of its promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and improved capital structure, strengthens the financial risk profile. The outlook may be revised to 'Negative' if decline in revenues, or stretch in the working-capital cycle, or larger than anticipated debt-funded capex, weakens liquidity.

Key rating drivers

Credit strengths

Healthy revenue growth - The company's operating income witnessed a healthy growth from Rs. 305.02 crore in FY2017 to Rs. 1017.46 crore in FY2018 on the back of significant ramp-up in Xiaomi sales over the last two years. FDPL generated revenues of ~Rs. 860.00 crore in 8M FY2019 and revenue growth in the near term would be driven by addition of other products and dealerships to the company's portfolio.

Robust distribution network – FDPL is one of the major zonal distributors and is the sole-authorized distributor for Xiaomi smartphones in Telangana, Andhra Pradesh and Tamil Nadu except urban regions such as Hyderabad, Visakhapatnam, Vijayawada, Chennai and Coimbatore. FDPL has a robust distribution network with more than 800 partners including regional distributors, regional retailers, Mi-exclusive stores and organized retail outlets across the three states. The company has also commenced distribution of new products like Mi TVs and new brands like Anker, Soundcore, Conekt etc. in the accessories segment.

Established market position of Xiaomi - Xiaomi has an established position in the Indian smartphone market and is currently the market leader capturing a market share of ~27.3% in Q3 CY2018 (as per International Data Corporation (IDC)), thus providing revenue visibility to the company.

Extensive experience of the promoters – The promoters have an experience of over two decades in the mobile distribution and retail industry with the presence of businesses across segments like distribution and organized retail.

Credit challenges

Stretched capital structure – The company has modest networth of Rs. 11.98 crore and high overall indebtedness with TOL/TNW of 7.19 times as on March 31, 2018 owing to low net worth. However, the coverage indicators are moderate with Interest coverage at 4.29, Total Debt/OPBITDA of 2.93 and NCA/Total Debt of ~20% as on March 31, 2018. However, TOL/TNW adjusted for interest-free unsecured loans from promoters is 5.14 times as on March 31, 2018.

High vendor concentration risk – FDPL has a high vendor concentration risk with 69% of the total revenue contributed by Xiaomi in 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. Also, revenue from Gionee, which contributed 26% of the revenues in FY2018, is expected to decline in FY2019 owing to deterioration in its market position. However, this is expected to be mitigated to an extent with the addition of new vendors in the accessories segment.

Highly competitive industry – FDPL faces intense competition from dealers of other OEMs in the Indian smartphone industry with the presence of many global and domestic brands in the industry. Any decline in the market position of the principal could impact the company's revenues.

Proposed debt-funded expansion plans - FDPL proposes to incur capital expenditure of ~Rs 21.00 crore over the next three years towards purchase of land and construction of office building in Hyderabad. However, the funding for the project is yet to be finalized.

Liquidity Position

The company's liquidity position remained moderate with low debt repayment obligations. The average fund-based limit utilization was moderate at ~68% during the period from July 2017 to October 2018.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

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. The company is currently the sole authorized distributor for Xiaomi smart phones in Telangana, Andhra Pradesh and Tamil Nadu except urban regions like Hyderabad, Chennai, Visakhaptanam and Vijayawada. FDPL is also engaged in distribution of mobile phones of other brands such as Apple, Celkon and Micromax; and distribution of accessories of brands such as Anker, Soundcore, Conekt etc.

Key financial indicators

	FY 2017	FY 2018
Operating Income (Rs. Crore)	305.02	1017.46
PAT (Rs. Crore)	0.79	5.19
OPBDIT/ OI (%)	0.97%	0.95%
RoCE (%)	14.79%	24.11%
Total Debt/ TNW (times)	4.80	2.37
Total Debt/ OPBDIT (times)	10.99	2.93
Interest coverage (times)	2.12	4.29

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)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019 January 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 -
1	Fund Based	Long Term	36.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Interchangeable	Long Term	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
3	Non Fund Based	Short Term	40.00	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	-
4	Unallocated	Long Term	2.00	-	[ICRA]BB+ (Stable)	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based	NA	NA	NA	36.00	[ICRA]BB+ (Stable)
NA	Non Fund Based	NA	NA	NA	40.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	2.00	[ICRA]BB+ (Stable)

Source: Flash Distribution Private Limited

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