February 15, 2022

# Panache Digilife Limited: Ratings downgraded to [ICRA]BB(Negative)/[ICRA]A4

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based – Term Loan | 4.00 | 4.00 | [ICRA]BB (Negative) downgraded from [ICRA]BB+ (Negative) |
| Long-term Fund-Based - Cash Credit | 20.00 | 20.00 | [ICRA]BB (Negative) downgraded from [ICRA]BB+ (Negative) |
| Short-term – Non-fund based – LC/BG | 9.00 | 9.00 | [ICRA]A4 downgraded from [ICRA]A4+ |
| **Total** | **33.00** | **33.00** | |

**Instrument details are provided in Annexure-1*

# Rationale

To arrive at the ratings, ICRA has consolidated the business and financial risk profile of Panache Digilife Limited (PDL or the company), its subsidiaries, Technofy Digital Private Limited (TDPL) and Wemart Global FZE (Wemart), and its joint venture, ICT Infratech Services Private Limited (ICT).

The rating downgrade and negative outlook on long-term rating factor in the continued pressure on PDL's scale of operations, internal accrual generation and liquidity position in the current fiscal. Slower execution of the existing orderbook due to lower-than-anticipated recovery in key sectors being indirectly serviced by the company has led to a decline in revenues, which coupled with lower absorption of fixed overheads has exerted pressure on internal accrual generation and debt protection metrics in recent quarters. Moreover, high receivable and inventory levels led to elevated funding requirements, translating into high reliance on external debt and a stretched liquidity position. ICRA has noted PDL's order book in hand, which provides revenue visibility over the medium term. However, timely execution of the same will be critical for improvement in scale and profitability over the near term

The ratings also continue to factor in the sizeable corporate guarantee and advances extended by PDL to its wholly owned subsidiary, TDPL (not a going concern) amid its tight liquidity position. Additionally, PDL's profitability remains vulnerable to raw material price risk and foreign currency risk since most of the raw material is imported from China and Taiwan. It also faces stiff competition from established as well as unorganised players, which limits its bargaining power with customers.

The ratings, however, favourably factor in PDL's established operational track record and extensive experience of its promoters in the IT hardware industry, and the company's established relationships with its customers and suppliers, which has resulted in repeat business. Moreover, it also benefits from synergies from technical collaborations with multinational corporations, credible institutions and IT majors for product development as well as its diversified product profile. ICRA also notes that the company has qualified for production linked incentive (PLI) scheme under IT hardware and telecom products and is expected to help improve its scale of operations. However, PDL needs to achieve the required milestones as per the scheme to benefit from it, which remains to be seen.

# Key rating drivers and their description

## Credit strengths

**Extensive experience of promoters and established track record in IT hardware industry –** PDL is a mid-sized IT solutions provider for information and communications technology (ICT), internet of things (IoT) and other IT-related products and services. It is promoted by Mr. Amit Rambhia and Mr. Nikit Rambhia, who are technically qualified with an extensive experience of over two decades in the IT hardware industry.

**Technical collaborations with multinational corporations for product development –** Through its rich experience in the business and various technical collaborations, the company has established strong relationships with several IT majors and receives constant technology support from reputed MNCs like Microsoft and Intel. PDL is associated with an Indian company (being an investee company of Indian Scientific Innovation Company Ltd., a Section 8 company promoted by the Indian Institute of Sciences and Society for Innovation and Development), which has jointly developed specialised products under the Project Lyf-Lyn. It constantly innovates and develops new products in the technology space, leveraging on its technological expertise.

**Diversified product profile with order pipeline offering revenue visibility –** The company's product portfolio includes a wide range of smart computing devices (pc-on-a-stick/pc-on-a-box), smart asset tracking solutions (GPS, NFC, RFID), IoT-enabled retail POS terminals, interactive flat panel displays (IFPDs) and open pluggable systems (OPS), healthy living solutions and pen display solutions under its flagship 'Panache' brand. The products find application across sectors such as education institutes, banks, ecommerce, transportation, hospitality and IT companies. It has a healthy order book position, supported by steady order inflows in the current fiscal, which provides healthy revenue visibility over the near-to-medium term. ICRA also notes that the company has qualified for the PLI scheme under IT hardware and telecom products that is expected to help improve its scale of operations. However, the company need to achieve the required milestones as per scheme to benefit from the scheme which is required to be seen.

**Established relationships with end-customers and suppliers –** The company primarily caters to B2B clients and enjoys established relationships with its major customers owing to the extensive experience of its promoters, which ensures significant repeat orders. The customer base is fairly diversified, with the top five customers contributing 50% to its total sales. PDL procures its raw materials, mainly microprocessors, CPUs, flash sticks and embedded components, etc, from approved suppliers in the domestic as well as international markets.

## Credit challenges

**Modest and declining scale of operations and profitability –** PDL generated revenues of ~Rs. 11.0 crore in Q3 FY2022, indicating a YoY degrowth of ~43%, owing to delay in execution of orders. Also, on a YTD[1] basis, PDL achieved revenues of Rs. 37.6 crore in 9M FY2022, indicating a YoY decrease of ~32%. The OPM dipped to ~8.8% in 9M FY2022 from ~14.0% in 9M FY2021, owing to lower absorption of fixed overheads given the contraction in scale. Coupled with high reliance on debt, this led to weakening of debt protection metrics in recent quarters. Timely execution of the existing order book will be critical for improvement in its scale and profitability over the near term.

**High working capital intensity of operations due to stretched receivables and high inventory levels; high proportion of debtors outstanding over six months –** The company's working capital intensity remained high as reflected by NWC/OI of ~58% as on March 31, 2021 and ~84% as on September 30, 2021 (against ~62% as on September 30, 2020) due to stretched receivable days of ~181 days and ~264 days as on March 31, 2021 and September 30, 2021, respectively. It reported a high inventory period of ~97 days and 142 days as on March 31, 2021 and September 30, 2021, respectively. Elevated funding requirements have continued to result in high reliance on external debt and stretched liquidity position. Improvement in internal accrual generation and optimisation of the working capital cycle will be key in driving the improvement in PDL's liquidity profile, going forward.

[1] *Year to date*

**Stiff competition from established as well as unorganised players –** There are minimum entry barriers for manufacturing and assembling of information technology hardware products. The industry is highly competitive with both organised and unorganised players, which restricts bargaining power with large customers and passing on of price hikes to customers, thus constraining profitability.

**Sizeable contingent liability in form of corporate guarantee and advances extended to subsidiary in nascent stage of operations –** PDL has extended a corporate guarantee and loans (Rs. 4.12 crore outstanding as on September 30, 2021) to its wholly owned subsidiary, TDPL. TDPL has no operational revenues at present. It reported net loss of ~Rs. 1.68 crore in FY2021 and has annual debt obligations of Rs. 1.2-1.6 crore over the next three years, being funded through real estate asset sales by TDPL/some funding support from PDL. Any liability devolving on PDL in the future in case of cash flow mismatches or further advances to the subsidiary, which may weaken its already stretched liquidity position, will continue to be monitored.

**Vulnerability of profitability to raw material price risk and foreign currency risks –** The company typically imports ~40% of its raw material (microprocessors, motherboards, storage devices, etc) requirement from China, Taiwan and Singapore, while the rest are sourced through import agents and domestic manufacturers. This exposes its profitability to fluctuations in raw material prices as well as foreign exchange risk, as PDL does not have any active hedging mechanism in place.

## Liquidity position: Stretched

PDL's liquidity position is **stretched**, as reflected by modest free cash balance and liquid investments of Rs. 0.63 crore as on October 31, 2021, and almost full utilisation of its fund-based working capital limits. It had long-term borrowings of Rs. 11.9 crore as on September 30, 2021 (excluding unsecured loans from promoters and related parties, including loans of Trechnofy Digital Private Limited) towards which it has repayment obligations of Rs. 3.0-3.6 crore p.a. over the next three years. Further, advances (~Rs. 4.1 crore as on September 30, 2021) are yet to be received from its subsidiary, constraining PDL's funds availability.

### Rating sensitivities

**Positive factors –** An upgrade in the ratings in the near term is unlikely given the Negative outlook. However, healthy recovery in business operations and improvement in liquidity position will result in revision of outlook to Stable.

**Negative factors –** Negative pressure on PDL's ratings could arise if there is a sustained pressure on its revenue growth, profitability and liquidity position. Specific credit metrics that may trigger a rating downgrade include interest coverage of less than 2.0 times on a sustained basis.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Information Technology Hardware-related Services Industry |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of PDL. The list of subsidiaries and joint ventures is enlisted in Annexure 2. |

## About the company

Incorporated in 2007, Panache Digilife Limited is an NSE-listed ICT and IoT devices design, manufacturing, distribution and services company, headquartered in Mumbai. The company has an ISO 9001:2015 & 14001:2015 certified manufacturing facility at Bhiwandi (Maharashtra) spread over 57,000 sq. ft. with a current manufacturing capacity of five lakh units per annum

## Key financial indicators (audited)

| Consolidated | FY2020 | FY2021 | 9M FY2022* |
|---|---|---|---|
| Operating Income (Rs. crore) | 71.8 | 78.5 | 37.6 |
| PAT (Rs. crore) | 2.3 | 2.9 | 0.4 |
| OPBDIT/OI (%) | 9.8% | 11.3% | 8.8% |
| PAT/OI (%) | 3.2% | 3.7% | 1.1% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.8 | 2.2 | NA |
| Total Debt/OPBDIT (times) | 6.1 | 3.2 | NA |
| Interest Coverage (times) | 2.8 | 2.6 | 1.5 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Unaudited*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Feb 29, 2020 (Rs. crore) | Date & Rating in | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | February 15, 2022 | November 26, 2021 | Mar 25, 2021 | - | - |
| 1 | Term Loans | Long-term | 4.00 | 3.04 | [ICRA]BB (Negative) | [ICRA]BB+ Negative) | [ICRA]BB+ (Stable) | - | - |
| 2 | Cash credit | Long-term | 20.00 | - | [ICRA]BB (Negative) | [ICRA]BB+ (Negative) | [ICRA]BB+ (Stable) | - | - |
| | Non-fund based bank facilities | Short-term | 9.00 | - | [ICRA]A4 | [ICRA]A4+ | [ICRA]A4+ | - | - |

### Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| LT Scale: Fund Based - Cash Credit | Simple |
| LT Scale: Fund Based - Term Loan | Simple |
| ST Scale: Non-fund based limits | Very 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 analyzing 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, is available on ICRA's website: www.icra.in

## Annexure-1: Instrument details

| ISIN No. | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loans | Feb-2020 | - | Aug-2024 | 4.00 | [ICRA]BB(Negative) |
| NA | Cash credit | - | - | - | 20.00 | [ICRA]BB(Negative) |
| NA | Non fund based facilities – LC/BG | - | - | - | 9.00 | [ICRA]A4 |

***Source:*** *Company*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | PDL Ownership | Consolidation Approach |
|---|---|---|
| Wemart Global FZE | 100% | Full Consolidation |
| Technofy Digital Private Limited | 100% | Full Consolidation |
| ICT Infratech Services Private Limited | 50% | Equity Method |

## ANALYST CONTACTS

**Shamsher Dewan**
+91 124 4545 328
shamsherd@icraindia.com

**Kinjal Shah**
+91 22 6114 3442
kinjal.shah@icraindia.com

**Deepak Jotwani**
+91 124 4545 870
deepak.jotwani@icraindia.com

**Pawan Mundhra**
+91 20 6606 9918
Pawan.mundhra@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@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

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches