August 09, 2019

Marina Distributors: Rating reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-fund Based Limits	25.0	25.0	[ICRA]A+(SO); Re-affirmed; Outlook revised to Stable from Positive
Total	**25.0**	**25.0**	

**Instrument details are provided in Annexure-1*

The letter SO in parenthesis suffixed to the rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. An SO rating does not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The rating is based on an unconditional and irrevocable guarantee provided by Savex Technologies Private Limited (STPL) for the Rs. 25.0-crore non-fund based limits of Marina Distributors (MD). The rating is based on an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The revision in the outlook on the long-term rating factors in the moderation in STPL's consolidated debt coverage indicators, over the past two years, as reflected by its Total Debt/OPBDITA of 2.7 times and interest coverage of 4.1 times as on March 31, 2019 (as per provisional financials) compared to 1.8 times and 6.4 times, respectively, as on March 31, 2017. The same is due to an increase in STPL's total debt, over the past two years, on account of higher working capital requirements because of higher proportion of enterprise sales and online sales through e-commerce platforms in STPL's total sales. The rating remains constrained by its high vendor concentration, with significant dependence on key vendors (Samsung, HP Inc, Hewlett Packard Enterprise and Lenovo) and lack of geographical diversification compared to other larger players, with its focus primarily on the domestic market. Hence, STPL's revenues are susceptible to the performance of its key vendors, which operate in an intensely competitive market.

The rating favourably factors in the healthy growth in the company's operating income (OI) in FY2019, supported by the established market share of its key vendors (Samsung, HP Inc, Hewlett Packard Enterprise and Lenovo) and increase in online sales through e-commerce platforms (primarily Amazon India). The rating continues to factor in the extensive experience of the promoters in the distribution business and robust credit appraisals. ICRA notes STPL's risk management practices, with low delinquency ratios and mitigation of obsolescence risk from its vendors. The rating also notes STPL's market position as a leading distributor of technology products in India. It shares strong relationships with its key vendors and has a strong distribution channel in India through a wide network of resellers and its own distribution centres.

ICRA also notes STPL's thin profitability margins due to the inherently low value additive nature of distribution business. Given the working capital intensive nature of business, any increase in the working capital cycle, coupled with contraction in the operating margins, would adversely impact the return on capital employed (RoCE), which remains comfortable at present.

Outlook: Stable

ICRA believes that STPL's financial risk profile is expected to remain stable supported by the established market position of its key vendors and growing sales through e-commerce platforms. The outlook may be revised to Positive if sustained revenue growth with stable margins strengthens its financial risk profile, coupled with a meaningful decline in vendor concentration. The outlook may be revised to a Negative in case of a decline in revenues/profitability due to weak performance by any of its key vendors or deterioration in debt coverage indicators arising from stretch in working capital cycle or major debt-funded acquisitions.

Key rating drivers

Credit strengths

Corporate guarantee extended by STPL for bank guarantee facilities of MD – STPL has given a corporate guarantee to the Rs. 25.0-crore bank guarantee facilities of the firm.

Professional management of STPL with vast experience – STPL's operations are managed by Mr. Anil Jagasia and other professionals, who have extensive experience in the distribution business.

Established relationship with its key vendors; favourable market position of the same – Samsung, HP Inc, Hewlett Packard Enterprise and Lenovo are the key vendors of STPL, contributing a significant portion of the overall sales. STPL has extensive relationships with its vendors and has been associated with those companies for more than a decade. Over the past two years, STPL has benefited from the favourable market position of its key vendors, resulting in healthy revenue growth.

Low delinquency levels indicating strong credit appraisal mechanism – STPL has robust internal control and risk management systems insulating its business from possible risks on price movement, technological obsolescence etc. Further, it maintains strong credit assessment norms and provisioning policies to minimise credit risks. STPL's delinquency ratio has been low, indicating a sound credit appraisal adopted in this large volume business.

Healthy revenue growth and stable profitability – STPL has grown at a healthy compounded annual growth rate (CAGR) of ~21% over the past four years (FY2015-FY2019), primarily driven by growth in key vendor sales through both offline and online channels. The yearly net cash accruals grew at a CAGR of ~14% over the past four years, indicating steady profitability.

Credit challenges

Low operating margins – The profitability levels would continue to remain thin, in line with the low value additive nature of the distribution business. The operating margins remained in the range of 2.5%-3.0% over the past five fiscal years. Overall, the thin net margins leave STPL's cash accruals highly vulnerable to changes in operating cost/interest structure.

Increase in working capital requirements – The company's total debt increased to ~Rs. 880 crore as on March 31, 2019 (as per provisional financials) from Rs. 414.5 crore as on March 31, 2017 due to an increase in working capital requirements. The working capital requirements primarily increased on the back of higher proportion of enterprise sales and online sales through e-commerce platforms in STPL's total sales, wherein the working capital cycle is longer compared to other sales. This resulted in moderation in its capitalisation and debt coverage indicators in FY2019 compared to FY2017.

Revenues susceptible to performance of its key vendors due to stiff competition – Samsung, HP Inc, Hewlett Packard Enterprise and Lenovo are the company's key vendors, contributing a significant portion of its overall sales. Any weak performance of its key vendor's products could adversely impact the business of the distributor. Although STPL has added new vendors (Ubiquiti, Harman, D-Link, Huawei and others) during the last three years, the contribution from these entities to its overall revenues is low. Meaningful diversification in the vendor base will be essential to improve its overall business risk profile.

Liquidity position

MD remains dependent on STPL for its working capital requirements. ICRA expects STPL's liquidity profile (guarantor) to remain comfortable due to healthy cash accruals, nil term loan obligations and moderately utilised bank limits (~80% of the sanctioned limits utilised during September 2018 to April 2019 with peak utilisation of bank limits exceeding 90% during the festival season). STPL does not have any major debt-funded capex plans or dividend distribution plans, thereby supporting its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for Rating Debt Instruments Backed by Third-Party Explicit Support
Parent/Group Support	The rating for the Rs. 25.0-crore bank facilities are based on the strength of an unconditional and irrevocable corporate guarantee by STPL.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of STPL (guarantor). As on March 31, 2019, STPL has one subsidiary that is enlisted in Annexure-2.

About the firm

Incorporated in November 2014, MD is a partnership firm involved in the system integration business. The firm is promoted by Mr. Mukesh Rajpal (41% stake), Mr. Rohan Almeida (40% stake) and STPL (19% stake).

About the guarantor

STPL is involved in the distribution of branded computers, computer peripherals, mobile phones and accessories through a network of sales office branches spread across the country. It is a distributor for a number of vendors such as Samsung India Electronics Private Limited (mobile phones, consumer electronics and IT products), Hewlett Packard India Sales Private Limited, Hewlett Packard Enterprise India Private Limited, Lenovo, Logitech Asia Pacific Limited, Microsoft India Corporation, Benq, Ubiquiti, D-Link Corporation and Huawei. STPL offers its vendors access to more than 7,000 channel partners, retailers, corporate resellers, value-added resellers and system integrators in various cities and towns in India.

Key financial indicators (audited)

Rs. crore	MD FY2018	STPL (Consolidated financials) FY2017	FY2018
Operating Income (Rs. crore)	148.1	8,483.9	10,528.6
PAT (Rs. crore)	0.2	131.3	181.8
OPBDIT/ OI	0.3%	2.8%	2.9%
RoCE	-	24.8%	22.2%
Total Debt/ TNW(times)	0.0	0.7	1.3
Total Debt/ OPBDIT (times)	0.0	1.8	3.4
Interest Coverage (times)	1.8	6.4	6.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating August 2019	Chronology of Rating History for the Past 3 years Date & Rating in FY2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017
1	Non-fund Based Limits	Long-term	25.0	-	[ICRA]A+(SO) (Stable)	-	[ICRA]A+(SO) (Positive)	-

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	Bank Guarantee	NA	NA	NA	25.0	[ICRA]A+(SO)(Stable)

Source: Marina Distributors

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

Company Name	Ownership	Consolidation Approach
Savex Singapore Pte. Ltd	99.95%	Full Consolidation

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Jay Sheth
+91 22 6114 3419
jay.sheth@icraindia.com

Rachit Mehta
+91 22 6114 3423
rachit.mehta@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

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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