Press Release

Parekh Gadgets Private Limited

February 15, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	35.00 (Includes proposed limit of Rs. 21.41 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	15.00 (Includes proposed limit of Rs. 13.00 crore)	IVR A3 (IVR A three)	Assigned	Simple
Total	**50.00 (INR Fifty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Parekh Gadgets Private Limited (PGPL) derives strength from its experienced management and established track record of operation, sole distributor for Reliance Jio and Oppo smartphones in Maharashtra except Mumbai, steady improvement in its scale of operations and profits, and low working capital intensity of operations. However, the ratings are constrained on account of thin profit margins owing to trading nature of operations, leveraged capital structure and moderate coverage indicators, and competitive and fragmented nature of the industry and intense competition.

key rating sensitivities:

Upward Factors

- Sustained increase in the scale of operation with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with improvement in debt protection metrics

Downward Factors

- Moderation in operating income or profitability and/or cash accrual thereby leading to any deterioration in the financial risk profile on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management and established track record of operations

The company was incorporated by the Parekh family in 2015. The promoters have long experience and have an established track record of operation in the business of mobile phone distribution. The company's day-to-day operations are looked after by Mr. Tariq Rauf Parekh, Mr. Mohammed Rauf Parekh, and Mr. Zulkifl Rauf Parekh along with a team of experienced professionals.

Sole distributor for Reliance Jio and Oppo smartphones in Maharashtra except Mumbai

Parekh Gadgets Private Limited is engaged in distribution of mobile devices across Maharashtra. PGPL is a zonal distributor of Reliance Retail Limited for Reliance Jio products and services for the entire Maharashtra region except Mumbai. Further, the company is also a super stockist for Oppo Mobiles India Private Limited for Realme and Oppo products across Maharashtra except the Mumbai region.

Steady improvement in its scale of operations and profits

The company has witnessed a year-on-year growth of ~36% in its revenue in FY22. It generated a total operating income of Rs.352.93 crore in FY22 (Rs.259.73 crore in FY21), the improvement in revenue in FY22 was on account of increase in scale of operation which was driven by reduction in covid – 19 cases followed by reopening of the economy along with relaxation in the nationwide lockdown. Consequently, the absolute EBITDA of the company has improved from Rs.7.03 crore in FY21 to Rs.9.10 crore in FY22 respectively. It generated a PAT of Rs.3.68 crore in FY21 and Rs.4.37 crore in FY22 respectively and GCA of Rs. 4.36 crore in FY21 and 5.06 crore in FY22 respectively. Further, the company has generated total operating income of Rs. 276.09 crore in 7M FY23 vis-à-vis Rs. 224.15 crore in 7M FY22, depicting a growth of ~23.17%. Infomerics expects the demand to remain healthy leading to a steady growth in the company's topline, going forward. Consequently, the profits and cash accrual are also likely to increase steadily.

Low working capital intensity of operations

The working capital intensity of the company remains low driven by 44 days of operating cycle in FY2022. The operating cycle remained comfortable on account of low payable and receivable days supported by low inventory days. The current ratio stood at 1.53 times in FY22 (PY – 1.47 times) and the quick ratio stood at 1.08 times in FY22 (PY 1.04 times).

Key Rating Weaknesses

Thin profit margins owing to trading nature of operations

Owing to the inherent nature of the distribution business, PGPL continues to have low profit margins. During FY22 EBITDA margin remained low at 2.58% (FY21: 2.71%). The PAT margin remained low at 1.24% in FY22 (FY21: 1.41%). Intense competition in the mobile retail business will continue to put pressure on the margin. The company's ability to increase the profitability will be a key credit determinant, going forward.

Leveraged capital structure and moderate coverage indicators

The capital structure of the company remained leveraged with overall gearing ratio of around 2.45 times in FY22 (FY21: 2.36 times) and Long-Term Debt Equity ratio stood at 0.62 times in FY22 (FY21: 0.58 times). The tangible net worth of the company stood at INR 17.74 Crore as on March 31, 2022 (FY21: INR 14.58 Crore) and total debt stood at INR 43.49 Crore in FY22 (FY21: INR 34.39 Crore). TOL/TNW stood at 2.67 times as on March 31, 2022 (FY21: 2.69 times). Total debt/GCA stood at 8.60 years in FY22 (FY21: 7.90 years). Debt protection parameters also remained moderate with interest coverage ratio of 2.44 times in FY22 (FY21: 2.85 times).

Competitive and fragmented nature of the industry and intense competition

The mobile handset and electronic goods trading industry is highly competitive and fragmented in nature. The company's business is linked to the technological upgradations/ advancements carried out in their respective products by its suppliers. This makes the company's business susceptible to changes in technology and the ability of its suppliers/vendors to adapt to the same. Additionally, the company's margins are dependent on the change of its vendors policies as regards margins/ discounts allowed to distributors by the vendors.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient cash accruals to meet the term debt repayment obligation in the period FY23-FY25. Average working capital utilisation was comfortable at 78.63% during the last 12 months ending in October 2022, which imparts satisfactory liquidity buffer.

About the Company

Incorporated in July 2015, Maharashtra-based, Parekh Gadgets Private Limited (PGPL) is promoted by Parekh family under the directorship of Mr. Tariq Rauf Parekh, Mr. Mohammed Rauf Parekh, and Mr. Zulkifl Rauf Parekh. The company is engaged in distribution of mobile devices across Maharashtra. PGPL is a zonal distributor of Reliance Retail Limited for Reliance Jio products and services for the entire Maharashtra region except Mumbai. Further, the company is also a super stockist for Oppo Mobiles India Private Limited for Realme and Oppo products across Maharashtra except the Mumbai region. The company also sells LED lights, LED TV's and fragrances under its own brand name iMee. The electronics products are assembled on job work basis where the company supplies the electronic parts to the job workers. Further, the company manufacture its perfumery products on job work basis.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited
Total Income	260.01	353.09
EBIDTA	7.03	9.10
PAT	3.68	4.37
Total Debt	34.39	43.49

Adjusted Tangible Net Worth	14.58	17.74
EBDITA Margin (%)	2.71	2.58
PAT Margin (%)	1.41	1.24
Overall Gearing Ratio on Adjusted TNW (x)	2.36	2.45

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	13.59	IVR BBB- / Stable	-	-	-
2.	Proposed Cash Credit	Long Term	21.41	IVR BBB- / Stable	-	-	-
3.	Bank Guarantee	Short Term	2.00	IVR A3	-	-	-
4.	Proposed Bank Guarantee	Short Term	13.00	IVR A3	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	13.59	IVR BBB-/ Stable
Proposed Cash Credit	-	-	-	21.41	IVR BBB-/ Stable
Bank Guarantee	-	-	-	2.00	IVR A3
Proposed Bank Guarantee	-	-	-	13.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Parekh-Gadgets-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.