Parekh Gadgets Private Limited

April 25, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	82.00 (increased from Rs. 18.81 crore) (includes proposed limits of Rs. 5.22 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Reaffirmed/ Assigned	Simple
Short Term Bank Facilities	3.00 (increased from Rs. 2.00 crore)	IVR A3 (IVR A three)	Reaffirmed/ Assigned	Simple
Total	**85.00** **(Rupees eighty five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the existing bank facilities and the assigned ratings to the enhanced bank facilities of Parekh Gadgets Private Limited (PGPL) derives strength from experienced management, strong business risk profile supported by sole distributorship for Reliance Jio and Oppo smartphones in Maharashtra except Mumbai and efficient working capital management. These strengths are partially offset by thin profitability margins, moderate financial risk profile buoyed by leveraged capital structure and fragmented industry coupled with exposure in consumer preferences.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of operations with improvement in profitability and cash accruals
- Improvement in the capital structure and debt protection metrics on a sustained basis
- Managing working capital requirement efficiently leading to improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Decline in the revenue and/ or profits leading to an overall deterioration in the financial risk profile of the company
- Moderation in the capital structure and/ or coverage indicators
- Elongation in the operating cycle with moderation in liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management**

The company is currently headed by the promoter directors Mr. Tariq Rauf Parekh, Mr. Mohammed Rauf Parekh, and Mr. Zulkifl Rauf Parekh. The promoters have around two decades of experience in the business of mobile distribution. The promoters' experience, their strong understanding of local market dynamics, and healthy relations with suppliers will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Strong business risk profile supported by sole distributorship for Reliance Jio and Oppo smartphones in Maharashtra except Mumbai**

The strong business risk profile of the company is marked by the improvement in its scale of operations. The revenue of the company witnessed a CAGR growth of ~29% to Rs. 432.72 Cr in FY2023 from Rs.259.73 Cr in FY2021 on account of increase in the sales volume due to overall boost in the demand in the industry. Again, the company has already achieved a revenue of Rs.677.62 Cr in FY2024 (provisional). In addition to this, PGPL has been diversifying it product profile over the years on a consistent basis from distribution of mobile phones to distribution of electronics (LED TV, LED bulb) and perfumery products under its own brand iMee. However, the mobile distribution remains the primary revenue generator for the company constituting to ~85% - 90% of its total revenue in FY2023.

Furthermore, PGPL 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. Also, the company is also a super stockist for Oppo Mobiles India Private Limited for Realme and Oppo products across Maharashtra except the Mumbai region.

- **Efficient working capital management**

The working capital management of the company is efficient marked by the comfortable operating cycle, which stood at 47 days as on 31st March 2023 as compared to 44 days as on 31st March 2022. The operating cycle is predominantly driven by the low debtor and inventory level during the same period. The debtor period stood at 29 days as on 31st March 2023 and the inventory holding stood at 19 days as on 31st March 2023. The working capital management of the company will remain at similar levels over the medium term owing to the nature of the industry.

Key Rating Weaknesses

- **Thin profitability margins**

The profitability margins of the company remained thin primarily attributable to the low value additive nature of the distribution business. The EBITDA margin stood at ~2.61% in FY2023 and the PAT margin of the company stood at 0.97 per cent in FY2023. Going forward, the improvement in the profitability margins of the company will be a key rating monitorable.

- **Moderate financial risk profile buoyed by leveraged capital structure**

The moderate financial risk profile of the company is on account of the leveraged capital structure and low net worth base. The tangible net worth of the company increased to Rs.21.87 Cr as on 31st March 2023 as compared to Rs.17.74 Cr as on 31st March 2022 on account of accretion of reserves. Further, gearing of the company stood high at 2.61x times as on March 31, 2023, as against 2.35x as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.94x as on March 31, 2023, as against 2.67x as on March 31, 2022. However, the debt protection metrics of the company stood comfortable marked by Interest Coverage Ratio at 2.23x as on March 31, 2023, and Debt Service Coverage Ratio at 1.90x as on March 31, 2023. However, the total debt/EBITDA stood high at 5.04x as on March 31, 2023. The financial risk profile of the company will remain at a similar level due to high reliance on debt in the medium term.

- **Fragmented industry coupled with exposure in consumer preferences**

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 like the company.

Furthermore, with technological advancements, the market has seen a tremendous shift in consumer behaviour. As a result of the technological impact influencing consumer behaviour, most company face an unending challenge to meet consumer expectations. Any adverse technological shift would have an adverse impact on the revenues of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The company will maintain adequate liquidity position going forward due to steady accruals. The gross cash accruals stood at Rs.4.83 Cr as on March 31, 2023 as against long term debt repayment of Rs. 0.20 Cr for the same period. The cash and bank balances of the company stood at Rs.0.01 Cr as on March 31, 2023. Further, the current ratio stood comfortable at 1.41x as on March 31, 2023 and the Quick Ratio also stood weak at 0.91x as on March 31, 2023. Further, the average fund-based limit utilisation remains high at around 89 per cent over the twelve months ended February 2024. Going forward, the company is likely to maintain adequate liquidity position supported by steady accruals.

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	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	352.93	432.72
EBITDA	9.12	11.31
PAT	3.22	4.19
Total Debt	41.67	56.99
Tangible Net worth	17.74	21.87
EBITDA Margin (%)	2.58	2.61
PAT Margin (%)	0.91	0.97
Overall Gearing Ratio on Net Adjusted Tangible Net Worth (x)	2.35	2.61

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

Brickwork Rating moved the ratings of Parekh Gadgets Private Limited into the Issuer Non-Cooperating category on account of inadequate information and lack of management cooperation in the rating procedure despite repeated follow ups as per the Press Release dated November 15, 2023.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 March 28, 2024	Date(s) & Rating(s) assigned in 2022-23 February 15, 2023	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long Term	7.19	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	50.59	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
3.	Proposed Cash Credit	Long Term	5.22	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
4.	Channel Finance	Long Term	19.00	IVR BBB-/ Stable	-	-	-
5.	Bank Guarantee	Short Term	3.00	IVR A3	IVR A3	IVR A3	-

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6.	Proposed Bank Guarantee	Short Term	-	-	-	IVR A3	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan I	-	-	April 2027	3.60	IVR BBB-/ Stable
Term Loan II	-	-	August 2027	3.59	IVR BBB-/ Stable
Cash Credit I	-	-	-	20.59	IVR BBB-/ Stable
Cash Credit II	-	-	-	30.00	IVR BBB-/ Stable
Proposed Cash Credit	-	-	-	5.22	IVR BBB-/ Stable
Channel Finance I	-	-	-	10.00	IVR BBB-/ Stable
Channel Finance II	-	-	-	2.00	IVR BBB-/ Stable
Channel Finance III	-	-	-	5.00	IVR BBB-/ Stable
Channel Finance IV	-	-	-	2.00	IVR BBB-/ Stable
Bank Guarantee	-	-	-	3.00	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-ParekhGadgets-apr24.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.