



Press Release

Spectra & Star Convergence Limited

Sept 15, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facility	87.00	IVR BBB; Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	10.00	IVR A3+ (IVR A Three Plus)	Assigned
		97.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Spectra & Star Convergence Limited draw comfort from its long track record of operations with healthy relationship with principals and modest capital structure. However, these rating strengths are partially offset by its thin profitability with average debt protection metrics and exposure to intense competition.

Key Rating Sensitivities:

Upward Factor:

- Significant and sustained improvement in revenue and profitability leading to cash accruals
- Improvement in the financial risk profile

Downward factor:

- Sharp decline in revenue or profitability margin, impacting accruals
- Interest coverage reducing to less than 1.30 times

List of Key Rating Drivers with Detailed Description

Key Rating Strength

Established track record of Promoter and healthy relationship with principals:

The promoters Mr. Amit Sindwani has experience of more than two decades in the industry through group companies. The promoter is assisted by highly qualified and experienced team of management which has helped the company to establish healthy relationship with their



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vendors (Hewlett-Packard and Samsung). SSCL has a strong association with HP and Samsung which has resulted in stable and steady growth in revenue. SSCL is Tier-1 National Distributor of Computers, Laptops, Desktop and AIOs of Hewlett Packard (HP) supplying pan-India and also supplying stock of HP to Amazon & Flipkart and mobile handsets of Samsung brand in the Delhi and Gurgaon region. The healthy market position is supported by strong and well-established distribution network across its area of operations.

Moderate working capital intensity:

The operations of the company are efficiently managed as reflected in operating cycle of 39 days as driven by inventory period of 18 days and collection period of 25 days as on March 31, 2021. SSCL is currently a Tier 1 distributor of both HP and Samsung, therefore any adverse change in product prices are borne by the principal supplier, therefore eliminating the inventory risk.

Modest Capital Structure:

Capital structure of the company remained moderate marked by its modest net worth base of Rs.27.92 crore as on March 31, 2021. (Rs 23.93 crore in FY20). Total debt of SSCL comprises of Rs 1.19 term loan, repayment of Rs 0.19 crore, working capital facilities of Rs 61.80 crore and unsecured loan from promoter and family stands at Rs 3.29 crore as on March 31, 2021, however going forward the gearing levels are likely to improve on the back of repayment of unsecured loan and secured loan. The working capital limits are highly utilized during the month end as the company is engaged in large quantity purchases, however during the month the average utilization is half of the limits. Long term debt equity and overall gearing ratio has improved from 0.20x, 3.26x March 31, 2020 to 0.17x, 2.38x stood at as on March 31, 2021 due to repayment of term loan, decrease in working capital utilization and accretion of profits in reserves. Total indebtedness of the company remained leveraged as reflected in TOL/TNW at 2.66x as on March 31, 2021.



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Key Rating Weaknesses

Thin profitability:

The company is primarily engaged in procuring the IT and telecom Handsets from HP and Samsung and trading and selling it to Tier II & III Distributors / Retailers pan India. Therefore, due to trading nature of operations the operating margins are low and between 1.70% to 1.68% in FY20 & 21.

Average debt protection metrics:

The company has an average financial risk profile marked by interest coverage ratio 1.93x and Total debt to GCA at 11.04 years as on March 31, 2021 net of deposits. It is expected that metrics will improve in the near term.

Exposure to intense competition:

Company such as Lenovo, OnePlus, Vivo and Xiaomi, have introduced feature-packed phones at lower prices, thereby hold a significant market share in the mid and premium phone segments, however the well established players of mobile/laptop industry are Apple, Samsung and HP. SSCL is susceptible to intense competition due to presence of brand like One plus, Xiaomi for the mobile segment. However, the risk is minimized, as SSCL is Tier 1 National Distributor of HP an established and large player in IT industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity position of the company is adequate with steady cash flow from business operations. SSCL has earned a GCA of Rs 4.48 crore against its minimal repayment obligation of Rs 0.19 crore as on March 31, 2021. The company fund-based working capital



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limits remained moderately utilized at ~62% during the past 12 months ended June 2021. However, the low debt repayment obligations and no major capital expenditure plans in the near term support the overall liquidity position of the company. Moreover, the company is expected to generate a healthy cash accrual of Rs. 6-7 crore as against repayment of Rs0.20 – 0.23 crore in FY22-24 attributable to low long-term debt in its capital structure.

About the Company

Incorporated in April 2010, Spectra & Star Convergence Limited (SSCL) is engaged in buying technology convergence products like personal computer, laptop, notebooks and tablets from HP and Samsung brand and sell, distribute the products to downstream channel partners of a 3 to 4 Tier setup. SSCL is a Tier-1 National Distributor for Computers, Laptops, Desktop and AIOs for Hewlett Packard (HP) and Tier-1 Distributor for Samsung mobile phones in Delhi and Gurgaon regions.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	677.71	659.65
EBITDA	11.49	11.06
PAT	3.04	4.01
Total Debt	77.96	66.48
Tangible Net worth	23.93	27.92
EBITDA Margin (%)	1.70	1.68
PAT Margin (%)	0.45	0.61
Overall Gearing Ratio (x)	3.26	2.38

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Channel Financing	Long Term	40.00	IVR BBB; Stable Outlook	-	-	-
2.	Inventory Financing	Long Term	27.00	IVR BBB; Stable Outlook	-	-	-
3.	Cash Credit	Long Term	20.00	IVR BBB; Stable Outlook	-	-	-
4.	Bank Guarantee	Short Term	10.00	IVR A3+	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - Channel Financing	-	-	-	40.00	IVR BBB; Stable Outlook
Long Term Bank Facility - Inventory Financing	-	-	-	27.00	IVR BBB; Stable Outlook
Long Term Bank Facilities - Cash Credit	-	-	-	20.00	IVR BBB; Stable Outlook
Short Term Bank Facilities Bank Guarantee	-	-	-	10.00	IVR A3+

Annexure-II: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/Spectra-Star-lenders15sept21.pdf>