

## Press Release

### Eastern Logica Infoway Limited

March 08, 2018

#### Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Fund Based Facilities- Cash Credit (Including proposed limit of Rs.12 crore)	35	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
<b>Total</b>	<b>35</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The aforesaid rating assigned to the bank facilities of Eastern Logica Infoway Limited (ELIL) derive comfort from its long track record & established market position in Eastern India, experienced promoters & their demonstrated support through equity infusion on regular intervals and diversified product portfolio. The rating is further underpinned by its growth in scale of operations and efficient working capital management. However, the rating is tempered by its low profitability due to trading nature of business, moderate capital structure with moderate debt protection matrices, intense competition with regional concentration and high utilisation of working capital limits indicating limited liquidity cushion. Growth and profitability, gearing levels and working capital management are the key rating sensitivities.

#### List of Key Rating Drivers

- Long track record and established market position in Eastern India
- Experienced promoters & demonstrated support through equity infusion on regular intervals
- Diversified product portfolio
- Growth in scale of operations
- Efficient working capital management
- Low profitability due to trading nature of business
- Moderate capital structure with moderate debt protection matrices
- Intense competition with regional concentration

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- High utilisation of working capital limits indicating limited liquidity cushion

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### *Long track record and established market position*

ELIL commenced operation in 1995 and accordingly has a long track record of operation of more than two decades. Over the years, the company has expanded its operations significantly and positioned itself as a prominent trader of mobile phones, computer peripherals and other hardware products in Eastern India. Currently, the company deals with more than 1200 retailers across Eastern India.

##### *Experienced promoters & demonstrated support through equity infusion on regular intervals*

The current promoter, Shri Gaurav Goel has vast business experience of about 25 years and is instrumental behind the growth of the company. Shri Goel supports the business of ELIL by infusing funds in the form of equity on regular intervals in the past and has demonstrated positive commitments. During, FY15-FY17 (FY refers to the period from April 1 to March 31), the promoter have infused equity aggregating to Rs.6.51 crore and during FY18 infused further Rs.0.40 crore in the business to support its operations. Currently, the day to day operations of the company are looked after by Shri Goel with the help of other directors.

##### *Diversified product portfolio*

ELIL has diversified product mix comprising products of almost all reputed brands in mobile phones and Information Technology (IT) related products. Its product array includes, laptops, entire range of computers parts and peripherals like PC hardware components, hard disks, printers, scanners, pen drives, camera etc. from all major brands (like Acer, Apple, Dell, Sony, HP, Lenovo, Samsung). Further, ELIL is also started dealing in mobile phones from FY14. In its mobile phone segment the company deals in mobile phones from major brands like Samsung, Motorola, Gionee, Micromax, VIVO, OPPO etc.

##### *Growth in scale of operations*

ELIL has maintained a stable financial performance over the past years, despite tough operating spectrum. The company has achieved satisfactory growth in operation over the past

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few years (except in FY16) driven by its established presence. The total operating income dampened (~ 6%) in FY16 mainly due to drop in its online sales (Rs.56.29 crore in FY16 as against Rs.79.63 crore in FY15) during the year. However, despite drop in total operating income in FY16 the company has managed to improve its absolute EBIDTA and PAT with an improvement in profit margins backed by its cost optimisation measures along with increase in mobile handset sells which relatively fetch higher margin. Further, ELIL registered a growth of ~6% in FY17 driven by increase in volume sales across all product segments attributable to its increased footsteps in new geographies like Delhi and Hyderabad. Further, during 9MFY18, ELIL achieved a PBT of Rs.1.92 crore (Rs.1.95 crore in 9MFY17) on total operating income of Rs.318 crore (Rs.226.22 crore in 9MFY17).

### *Efficient working capital management*

The operating cycle of the company remained satisfactory over the past three years in the range of 27-37 days during FY15-FY17. The working capital requirements are mostly funded by bank borrowings and other short term working capital funding arrangements from various NBFCs.

### **Key Rating Weaknesses**

#### *Low profitability due to trading nature of business*

ELIL operates with low profitability due to its trading nature of business marked by no value addition with intense competition. The company reported thin PBILDT margin in the range of 1.31%-1.72% and PAT margin in the range of 0.34%-0.53% during the last three years (FY15-FY17).

#### *Moderate capital structure with moderate debt protection matrices*

The company does not have much long-term debt. However, the overall gearing remained moderate at 0.85x as on March 31, 2016 and 1.08x as on March 31, 2017. The moderation was due to increase in bank borrowings attributable to its increased scale of operations. Further, the Debt coverage parameters of the company continued to remain moderate with the interest cover of 1.72 x in FY17 and the Total debt to GCA at 12.10x as on March 31, 2017.

#### *Intense competition with regional concentration*

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ELIL is operating in a highly competitive operating spectrum due to its low entry barriers with minimal product differentiation. Further, the operations of the company are geographically concentrated in West Bengal. ELIL generates its revenue mainly from West Bengal (Kolkata) (~79% in FY17) followed by Delhi (~13% in FY17) and Hyderabad (~8% in FY17). However, to diversify its operations the company opened a branch in Mumbai in (Q4FY17), in Bangalore (in January, 2018) and expanded its operations in Delhi during FY18 (Delhi contributed around 35% sale during 9MFY18).

### *High utilisation of working capital limits indicating limited liquidity cushion*

Being a trading company, the primary requirement of funds is for deployment in working capital as the company needs to maintain sufficient stock for display or for quick supply to its customers. Further, the company generally extends credit of about 30-45 days to its customers based on relationships and credit profile of the customer. The company generally receives a credit period of 30-40 days from its principals in case of IT related products. However, in case of mobile phones its need to pay the amount upfront to its principals. The average of maximum cash credit utilization of the company remained high at ~91% during the past 12 months ended on December, 2017 indicating limited liquidity cushion.

### **Analytical Approach & Applicable Criteria:**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **About the Company**

Headquartered in Kolkata (West Bengal), Eastern Logica Infoway Limited (ELIL) was set up in 1995 by Shri J.K. Baid of Kolkata under the name of Oswal Infotech Pvt Ltd. Initially, the company was engaged in IT networking related operations. Later in 2001-02, Shri Gaurav Goel, a Kolkata based first generation entrepreneur acquired 50% stake in this company. Later the name of the company was rechristened to Eastern Infoway Limited. Shri Goel started trading of information technology (IT) related products. Further, in September 2013, Shri Goel acquired the entire stake of the company and rechristened its name to Eastern Logica Infoway Limited. Currently, ELIL is engaged in trading of laptops, desktops, mobile phones, hardware and other computer peripherals through retailers, its own retail outlets and through E-commerce websites. ELIL is dealing with more than 1200 retailers and has eight retail outlets in Kolkata, one retail outlet in Delhi and has tie-ups with all major E-



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commerce retailers (such as Amazon, FlipKart, Tata CLIQ, Shop Clues, NDTV etc.). The company has branch offices in Delhi, Hyderabad and Mumbai, Bangalore (Opened in January, 2018), Gurgaon (Virtual Office) and distribution centres in other cities of West Bengal viz. Durgapur, Midnapore, Serampore and Asansol.

### Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	300.97	318.84
EBITDA	5.17	5.36
PAT	1.48	1.67
Total Debt	15.98	22.36
Tangible Net worth <sup>^</sup>	18.72	20.74
EBITDA Margin (%)	1.72	1.68
PAT Margin (%)	0.48	0.53
Overall Gearing Ratio (x)	0.85	1.08

<sup>^</sup> Old Receivables of Rs.1.25 crore adjusted with the Tangible Net worth.

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Limits-Cash Credit	Long Term	35	IVR BBB / Stable Outlook			

**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](http://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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### 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 Fund Based Limits- Cash Credit	-	-	-	35	IVR BBB / Stable Outlook