Press Release

Advanced Computers and Mobiles India Private Limited

July 23, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	125.50 (including proposed limit of Rs.29.50 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Long Term Debt – Term Loan	46.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)
3.	Short Term Fund Based Facilities	18.50	IVR A3 (IVR A Three)
4.	Short Term Non-Fund Based Facilities	10.00	IVR A3 (IVR A Three)
Total		**200.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoter and management, healthy growth in scale of operation, regular infusion of funds by promoter, wide distribution network with diversified product portfolio and established relationship with suppliers. The rating however, is constrained by moderate profitability margins and financial profile, moderately working capital intensive operation, geographical concentration risk, technological obsolescence and inventory risk and competitive and fragmented nature of industry. Increase in scale of operation and improvement in margins, significant improvement in debt protection metrics, and efficient working capital management are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoter and management

The company was incorporated in 1995 by Mr. Essa Merchant. He is Director of the company and has an experience of over two decades in the telecom industry. Mr. Merchant manages the day-to-day operation of the company and is ably supported by a management team comprising of technically qualified and experienced professionals. Over the years, the company has been associated with renowned brands such as Lenovo, Motorola, Dell, Panasonic, Blackberry, HTC, Sony Ericson etc.

Healthy growth in scale of operation

The company has witnessed healthy growth in total operating income in the past three years growing at a CAGR of 18.87% in FY17-FY19. The scale of operation increased in FY19 (provisional) primarily due to tie-up with Osswell India Pvt. Ltd. (subsidiary of Meizu in India) for sale of Meizu products on pan-India basis leading to increase in scale of operation.

Regular infusion of funds by promoter

The promoter and related groups have been regularly infusing funds (equity as well as unsecured loans) in the business at regular intervals to support the operations of the company. In the last three years (FY17-FY19), promoter has infused equity aggregating to ~Rs.11.00 crore. Promoter infused additional Rs.21.20 crore in the business in FY19 (share application money allotment is pending as on date, however the management has indicated that the shares will be allotted this fiscal year).

Wide distribution network with diversified product portfolio

The company entered into an agreement with InFocus for the sales of their mobile phones for the western region for both offline and online sales. The company has also tied up with Osswell India Pvt. Ltd. for sale of Meizu products on pan-India basis. ACMIPL caters to over 10,000 retail touch points through a wide distribution network of about 100-120 distribution centres. In addition, the company has expanded its reach through tie-ups with leading online e-commerce websites. Over the years, the company has ventured into trading of IT accessories and white goods in addition to their forte of mobile handset trading leading to a diversified product portfolio including LED TVs. Trading of non-mobile segment contributed approximately 17% to the total FY19 revenue.

Established relationship with suppliers

The company has an authorized distributorship of TCL Alcatel, InFocus and Meizu. Furthermore, the company is also involved in the trading of mobile phones brands such as Intex, Karbonn, Micromax, Oppo, Asus, etc. Over the years, the company has established relationship with suppliers of many reputed mobile brands thus avoiding dependence on few brands.

Key Weaknesses

Moderate profitability margins and financial profile

The profitability margins of the company have been low over the last three years. The EBITDA margin and PAT margin of the company have been in the range of 3-4% and 1-1.5% respectively during the last three years. The overall gearing of the company and other debt protection metrics of the company were moderate as on March 31, 2019. The interest coverage ratio stood at 1.62x in FY19. Timely infusion of equity and generation of adequate cash accruals are the key rating factors given the fact that the company has scheduled loan repayments in the near future (though the company plans to switch this loan and convert the same into working capital limits this fiscal).

Moderately working capital intensive operation

Operations of the company are moderately working capital intensive. The operating cycle of the company has been in the range of 55-65 over the last three years with relatively low reliance on creditors. The debtor collection days is generally around 60-65 days. The average utilization of the working capital facilities remained on the higher side during past 12 months ended May 31, 2019.

Geographical concentration risk

The revenue profile of the company is geographically concentrated with significant proportion of revenue being generated over the years from the state of Maharashtra. Even in FY19, around 85% of total revenue was realized from Maharashtra.

Technological obsolescence and inventory risk

The mobile and electronics trading industry faces high price volatility risk as products are exposed to various risks such as new technology, changing market dynamics and new model launches etc. However, such risks are mitigated by the company in the form of price protection clause included in their contracts, wherein the principal may either reimburse the company in cash or adjust the change in the form of a credit note (which can be used for future purchases). Further, for products which remain unsold on account of defect or obsolescence, the same are directly returned to the principals by the resellers, thus reducing the liability of the company.

Competitive and fragmented nature of industry

The mobile handset and electronic goods trading industry is highly competitive and fragmented in nature. The company's business is linked to the technological up-gradations/ 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.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Trading companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company has been earning a moderate level of GCA for the last few years and the same is expected to increase further with increase in scale of operation. Utilization of working capital limits remaining on the higher side (>90%) during the 12 months ended May 31, 2019 also indicate stretched liquidity. However, projected DSCR and ICR of 2.41x and 2.94x respectively provide some comfort in the absence of any major debt repayment obligations since the company plans to switch its term loan of Rs.46.00 crore from ECL Finance Limited and convert the same into working capital limits in FY20.

About the Company

Advanced Computers and Mobiles India Pvt. Ltd. (ACMIPL) was initially incorporated by Mr. Essa Merchant as a proprietorship firm (M/s. Advanced Computers) in 1995. The constitution of the firm was changed to a private limited company in 2014. Mr. Merchant is a first generation entrepreneur having over two decades of experience in telecom business. The company is involved in the distribution of mobile phones, accessories, white goods and data cards. Over the years, ACMIPL has been associated with renowned brands such as Lenovo, Motorola, Dell, Panasonic, Blackberry, HTC, Sony Ericson etc. The corporate office of the company is in Mumbai with 20 distribution locations spread across the country. The company caters to over 10,000 retail touch points through a wide distribution network of about 100-120 distribution centres.

Financials (Standalone) **(Rs. crores)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Provisional)
Total Operating Income	994.39	1079.82
EBITDA	31.81	36.89
PAT	10.38	11.33
Total Debt	150.68	182.69
Tangible Networth	92.55	110.85
EBITDA Margin (%)	3.20	3.42
PAT Margin (%)	1.05	1.05
Overall Gearing Ratio (x)	1.63	1.65

*Classification as per Infomerics' standards

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

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC/WCDL/CF	Long Term	125.50 (including proposed limit of Rs.29.50 crore)	IVR BBB-/Stable Outlook	--	--	--
2.	Long Term Debt – Term Loan	Long Term	46.00	IVR BBB-/Stable Outlook	--	--	--

3.	Fund Based Facilities – BD	Short Term	18.50	IVR A3	--	--	--
4.	Non-Fund Based Facilities – LC	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. 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
Cash Credit/WCDL/CF	--	--	--	125.50 (including proposed limit of Rs.29.50 crore)	IVR BBB-/Stable Outlook
Term Loan	--	12.90% p.a.	Nov 2022	46.00	IVR BBB-/Stable Outlook
Bill Discounting	--	--	--	18.50	IVR A3
Letter of Credit	--	--	--	10.00	IVR A3