Acuite
RATINGS & RESEARCH

Press Release

Alphavector India Private Limited

February 07, 2019

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 12.18 crore (Enhanced from Rs.7.98 crore)
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from A4)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' **(read as ACUITE double B)** from '**ACUITE B+**' **(read as ACUITE B plus)** and short-term rating to **'ACUITE A4+' (read as ACUITE A four plus) from 'ACUITE A4 (read as ACUITE A four)** to the Rs. 7.98 crore bank facilities of Alphavector India Private Limited (AIPL). The outlook is **'Stable'**.

Further, Acuité has assigned short-term rating to **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 4.20 crore bank facilities of AIPL. The outlook is **'Stable'**.

The rating upgrade is on account of consistent revenue growth with maintaining profit margins demonstrated by wide distribution network. The revenues of the company has increased to Rs.15.23 crore for FY2018 from Rs.9.78 crore in the previous year, which is a 55 percent growth y-o-y. With current year performance reflecting by revenue booking upto ~Rs.18.13 crore, Acuité expected the revenues to grow in near to medium term. Further, it is expected that the financial risk profile and debt protection metrics of the company to remain healthy with adequate liquidity position.

Alphavector India Private Limited (AIPL), incorporated in 1987 commenced it's operations from 2015. The company was a licensed merchandiser for distribution of toys, bicycles, apparels and other merchandise of Huffy, Marvel, and Disney among others. Later from FY2018, the company developed it's own brand namely 'FROG' to assemble and supply bicycles. The day-to-day operations are led by Mr. Sachin Chopra. The Fireside Ventures Investment Trust has invested in AIPL by way of compulsory convertible preference shares to the tune of around Rs.20 crore.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the AIPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

The CEO, Mr. Sachin has worked in the private equity industry for more than 10 years and has a great understanding of the Indian business and Greenfield demographic. Mr. Sachin has a combination of operating and investing experience across a multiple set of industries including consumer, finance and distribution. He started his career with Sun Microsystems in Silicon Valley where he lead the SPARC design team launching the world's second multi-core processor after IBM. For his work in the design of processors, Sachin holds three US patents. Post his MBA, Sachin started his career in private equity in 2001 and has spent the last decade investing in North America and India in his roles with General Atlantic, Warburg Pincus. He has engineering degrees from L.D. College of Engineering and Purdue University and has an MBA from the Wharton School.

Above average financial risk profile

AIPL has above average financial risk profile marked by healthy net worth, low gearing and healthy debt protection matrix. The net worth stood at Rs.10.84 crore as on March 31, 2018, which has witnessed sequential improvement from Rs.2.92 crore as on March 31, 2016. The accretion to net worth was mainly on account of capital infusion and steady operating profitability leading to higher accretion to reserves. AIPL has followed a conservative financial policy in the past as reflected by its peak gearing of 0.70 times over the last three years through 2017-18. The gearing of the group stood at Nil as on March 31, 2018. The total outside liabilities to tangible net worth ratio also stood low at around 0.41 times as on March 31, 2018. AIPL's total debt stood nil as on March 31, 2018 (Rs.1.30 crore as on March 31, 2017). The interest coverage ratio stood at 2.61 times in FY2018 compared to 3.25 times in FY2017. Acuité believes the financial risk profile of the company to improve as no further capex in the medium term.

Consistent revenue growth

AIPL has reported CAGR of 94 percent for the period under study from FY2015 to FY2018. The company has achieved an operating income of Rs.15.23 crore in FY2018 as compared to 9.78 crore in FY2017 compared to Rs.5.39 crore in FY2016. The improvement is on account of increasing demand of the product and building a wide network across more than 200 cities all over India through more than 300 dealers. Further, the revenue booked in current year is Rs.18.13 crore for a period under study from April to December, 2018. The company is expected to reach till Rs.25.16 crore for FY2019.

Weaknesses

Fluctuating Profitability margins

AIPL's operating margins stood at 5.38 percent in FY2018 as against 10.00 percent in FY2017 and 9.91 percent in FY2016. One of the reason for decline in operating margins in FY2018 is on account of expansion of business in apparel segment but failed to achieve better margins. Also, the company imports the spare parts of bicycle from foreign countries like China, Srilanka, Indonesia. Thus, it is exposed to foreign currency fluctuation risk. AIPL does not hedge the foreign currency risk. Thus resulting in impact of performance reflected by fluctuating PAT (Profit after tax) margins of 2.32 percent in FY2018 as against 4.72 percent in FY2017 and 4.04 percent in FY2016.

Working capital intensive operations

AIPL operations are working capital intensive marked by GCA (Gross Current Assets) days of 276 days in FY2018 compared to 324 days in FY2017. This is on account of high inventory days of 123 days in FY2018 (PY: 170 days) and debtors days of 129 days in FY2018 (PY: 152 days). AIPL holds inventory of around 5-6 months. Also the company extends credit period of around 90-180 days to the dealers.

Competitive and fragmented nature of Industry

AIPL operates in a highly fragmented and competitive industry with limited entry barriers wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Outlook: Stable

ACUITE believes AIPL will maintain a stable outlook in the medium term on account of experienced management. The outlook may be revised to 'Positive' in case the company achieves its revenues as projected along with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in financial risk profile of the company or due to any debt funded capex.

Liquidity profiles

AIPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.20 to Rs.0.50 crore during the last three years through 2017-18, while its maturing debt obligations was nil over the same period. The cash accruals of the company are estimated to remain around Rs.1.60 to Rs.2.50 crore during 2019-21 while its repayment obligation are estimated to remain nil. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 276 in FY 2018. But the company has low reliance on woring capital borrowings, the cash credit limit in the company remains unutilized during the last 12 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.67 crore as on March 31, 2018. The current ratio of the company stand healthy at 3.31 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	15.23	9.78	5.39
EBITDA	Rs. Cr.	0.82	0.98	0.53
PAT	Rs. Cr.	0.35	0.46	0.22
EBITDA Margin	(%)	5.38	10.00	9.91
PAT Margin	(%)	2.32	4.72	4.04
ROCE	(%)	9.31	16.76	17.93
Total Debt/Tangible Net Worth	Times	0	0.24	0.70
PBDIT/Interest	Times	2.61	3.25	2.63
Total Debt/PBDIT	Times	0	1.28	3.54
Gross Current Assets (Days)	Days	276	324	500

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-11-2017	Cash Credit	Long Term	3.98	ACUITE B+/ Stable (Upgraded)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)
10-05-2017	Cash Credit	Long Term	2.25	ACUITE B (Indicative)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Indicative)
11-02-2016	Cash Credit	Long Term	2.25	ACUITE B (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.98	ACUITE BB/ Stable (upgraded from ACUITE B+/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (upgraded from ACUITE A4)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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