

Press Release

Priyanka Communication India Private Limited

March 14, 2019

Rating Downgraded



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 350.00 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Stable (Downgraded from ACUITE A-/Stable) |
| Short Term Rating | ACUITE A2 (Downgraded from ACUITE A2+/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 350.00 crore bank facilities of Priyanka Communications India Private Limited (PCIPL). The outlook is '**Stable**'.

The rating downgrade reflects challenges faced by PCIPL in maintaining healthy liquidity profile reflected in persistence high level of bank limit utilization. The Company had to avail ad-hoc limits to support its increased inventory holding during FY2018-19. Acuité expects this liquidity pressure to persist till the company is able to tie up for increased bank limits to commensurate with its expected growth in near to medium term.

PCIPL, a Mumbai-based company was incorporated in 1995 and commenced its operations in 1997. The company is distributor of Reliance Jio products (Jio phones, SIM cards and connectivity devices) in Maharashtra region (except Nagpur). The company has also launched its two in house mobile phone brands – Centric, a smart phone and 'FRND' a featured phone, in February 2017. The company is also into apparel retailing of the international brand - FCUK. The company has a wide distribution network of 30,000+ mapped retailers for Jio products and ~200 distributors that serves over 20,000 retailers for its mobile segment. The company is also a strategic business partner with Flipkart for selling branded tablet computers on the website.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The company commenced its operations in 1997 and has established presence of over two decades in domestic market for its products. The Directors, Mr. Mahesh Agarwal and Mr. Manish Agarwal possess more than two decades of experience in the said business. PCIPL has diversified product mix and caters to different industries like telecom, retailing both online and offline and information technology. The company is also supported by experienced and skilled second line of management. Acuité believes that PCIPL will continue to benefit from its management's extensive track record and well established distribution channel.

• Improving revenues and margins

The operating income and operating margin has improved to Rs. 736.90 crores and 6.51 percent respectively in FY2018 as compared to Rs. 525.15 crores and 6.17 percent in FY2017. The revenues grew at a compounded annual growth rate (CAGR) of 33.61 percent through FY2018. The improvement in revenues is majorly on account of increasing acceptance of its own brand. The revenues from its owned brand stood at Rs.189.41 crore for FY2018 as against Rs.46.46 crore in the

previous year. Further, the company has registered operating income of Rs. 662.23 crores as on 31 December 2018.

- **Healthy financial risk profile**

The financial risk profile of PCIPL has been healthy, marked by net worth of Rs. 64.23 crore as on 31 March, 2018 as compared to Rs. 45.00 crore in the previous year. The Total outside liabilities to Tangible net worth (TOL/TNW) stood moderate at 2.62 times as on 31 March, 2018. The total debt comprises of Rs. 147.72 crore as on 31 March, 2018 consists of unsecured loan from director of Rs.1.78 crore, long term borrowings of 0.16 crores and working capital facility of Rs. 145.78 crore. The Total Debt/PBDIT stood at 3.04 times in FY2018 as against 3.29 times in FY2017. The Net cash accruals to Total debt (NCA/TD) stood at 0.13 times for FY2018. The Return on Capital Employed (RoCE) stood at 26.11 per cent in FY2018. Further, Acuite expects that going forward, the company will maintain its financial risk profile on account of its improving acceptance of their own brands leading to steady improvement in revenues and operating margins.

Weaknesses

- **Susceptibility of PCIPL's revenue profile to change in consumer preferences**

PCIPL's revenue profile has been changing over the years. The revenue from its own brands (Centric & FRND) has increased to Rs. 239.95 crores FY2019 (9M) from Rs.46.46 crores in FY2017. Hence, its revenue trajectory is linked to its own brand's ability to continuously develop and introduce new models at various price points keeping in mind the ever changing consumer preferences. The Indian market has witnessed significant turbulence in the past wherein certain players like Nokia had to relinquish their leadership positions to other players on account of their relative inability to react to technology and market related changes. The advents of other companies like Xiaomi, Oppo, Vivo and OnePlus have proved to be intensely competitive in terms of features and value. The ability of these companies to continuously churn out newer models with a strong value proposition for the consumer has helped these companies gain a significant share in the mobile market.

- **Risk of technology obsolescence leading to inventory risk**

The company maintains inventory level of ~63 days and receivables stood moderate at ~42 days as on 31 March 2018. The same is expected to increase in FY2019 & FY2020 due to launch of new models in mobile segment and expansion strategy undertaken by the company to tap new market for its own brands. Further, the inventory for its own brand stood at average of 62.92 per cent of total inventory for last six months ending December 2018. Hence the company is exposed to technology obsolescence. Acuite believes that the high inventory levels expose the company to the risk of a significant inventory write down in the event of a sluggish traction in sales. This is more important in case of players such as PCIPL, who deal in products including electronics and consumer products, which are highly susceptible to changing consumer taste and preferences. Any buildup in inventory beyond existing levels will be a key monitorable.

- **High competition and regulatory risk**

The company operates in industries like telecom, consumer electronics, mobile phones and textile – apparels (retail). All these industry are marked by presence of large number of organized and unorganized players resulting in high competition thereby putting pressure on margins. Further, industry like telecom, consumer electronics, mobile phones and online retailing are highly regulated. Any significant or negative regulatory change will have adverse impact on players such as PCIPL, as the company has significant operational dependence on these industries to maintain a stable business profile.

Liquidity profile

PCIPL's has generated net cash accruals of Rs.19.76 crore in FY2018 and same has been utilised for supporting its incremental working capital requirements. The current ratio stood low at 1.36 times in FY2018 and 1.28 times in FY2017. The operations of the company are moderately working capital intensive in nature marked by working capital cycle of 104 days and Gross Current Asset (GCA) days of 108 as on 31 March 2018. The average cash credit utilisation stood at ~90.00 per cent for last six months ending December 2018. Further, company has also availed ad-hoc limits to manage its increasing working capital needs leading to significant interest outgo. The ability of the company to improve its liquidity profile while managing its working capital cycle will be key rating sensitivity.

Outlook: Stable

Acuite believes that PCIPL will maintain a 'Stable' outlook over the medium term on account of its experienced management and diversified business profile. The outlook may be revised to 'Positive' in case the company registers significantly higher-than-expected growth in revenue and accruals while maintaining its working capital cycle efficiently. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle or if the company registers lower-than-expected growth in revenue and profitability or in case of deterioration in the debt protection metrics.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 736.90 | 525.15 | 414.50 |
| EBITDA | Rs. Cr. | 47.95 | 32.41 | 27.53 |
| PAT | Rs. Cr. | 19.23 | 13.00 | 13.09 |
| EBITDA Margin | (%) | 6.51 | 6.17 | 6.64 |
| PAT Margin | (%) | 2.61 | 2.48 | 3.16 |
| ROCE | (%) | 26.11 | 24.34 | 32.76 |
| Total Debt/Tangible Net Worth | Times | 2.30 | 2.44 | 2.58 |
| PBDIT/Interest | Times | 2.83 | 2.59 | 4.13 |
| TOL/TNW | Times | 2.62 | 3.23 | 2.87 |
| Total Debt/PBDIT | Times | 3.04 | 3.29 | 2.91 |
| Gross Current Assets (Days) | Days | 108 | 121 | 95 |

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------|-------------------------------|
| 15-Dec-2017 | Cash Credit | Long Term | 54.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 20.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 40.00 | ACUITE A- / Stable (Assigned) |
| | Ad-hoc limits (Fund Based) | Long Term | 5.00 | ACUITE A- / Stable (Assigned) |
| | Cash Credit | Long Term | 20.00 | ACUITE A- / Stable (Assigned) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 16.00 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A2+ (Assigned) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A2+ (Assigned) |
| | Proposed Long Term Loan | Long Term | 61.00 | ACUITE A- / Stable (Assigned) |
| | Proposed Short Term Loan | Short Term | 109.00 | ACUITE A2+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|----------------------------|------------------|----------------|----------------|-------------------------------|--------------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 62.00* | ACUITE BBB+ / Stable (Downgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB+ / Stable (Downgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE BBB+ / Stable (Downgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE BBB+ / Stable (Downgraded) |
| Ad-hoc limits (Fund Based) | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB+ (Downgraded & Withdrawn) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A2 (Downgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 15.00* | ACUITE A2 (Downgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A2 (Downgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A2 (Downgraded) |
| Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 48.00 | ACUITE BBB+ / Stable (Downgraded) |
| Proposed Short Term Loan | Not Applicable | Not Applicable | Not Applicable | 110.00 | ACUITE A2 (Downgraded) |

* Letter of Credit of Rs. 15.00 crores fully interchangeable with cash credit limits

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About Acuite Ratings & Research:

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