

Press Release

Seminole Electronics Pvt Ltd

July 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B+** (**read as ACUITE B Plus**) on the Rs.9.00 crore bank facilities of Seminole Electronics Pvt Ltd (SEPL). The outlook is '**Stable**'.

Established as a proprietorship firm in November 2015, the firm was under the name 'Seminole Tech' and later reconstituted into a private limited company as 'Seminole Electronics Pvt Ltd' (SEPL) in December, 2017. The company is engaged in designing, outsourcing for manufacturing and selling of electronic gadgets under its own brand name '**MIVI**'. The gadgets include Bluetooth speakers, cables, chargers and tempered glass.

Key Rating Drivers

Strengths

Extensive experience of promoters and healthy brand penetration

SEPL is promoted and managed by Mr. Kandula Viswanadh and his wife, Mrs. Midhula Devabhaktuni. Mr. K Viswanadh previously worked for a company that exports electronic products from the US to India, while Mrs. Midhula worked as a software engineer with reputed companies. After eight-years of extensive experience in US, the promoters returned to India in 2015 and started SEPL and launched the 'MIVI' brand with products of quality and technology differentiation at a value-plus price.

Despite existing established brands in the market and MIVI being a new brand entrant, SEPL recorded healthy revenues of Rs.8.00 crore in the first year of operations in FY2017. The revenue jumped to Rs.17.15 crore in FY2018 (Provisional), showing y-o-y growth of 113 percent. The reason for the positive growth is that the Chinese products available online are cheap but not certified, which leads to phone damage or product breakage. SEPL adopted the strategy of placing its products in E-commerce websites like Amazon, Flipkart, Paytm to market their products and they have received good response. About 90 percent of revenues are from E-commerce portal and rest through its own portal placements. Acuité believes that the product differentiation and the spirited team are expected to support in improvement of business risk profile over the medium term.

Moderate debtor and supplier risk

Since customer pays online or cash on delivery, the company gets its payments mostly within 10-15 days. There is a cycle of over 15 days wherein products are returned and payments are to be refunded. It pays around 30 percent advance and remaining within a weeks' time to its suppliers from delivery.

Moderate financial risk profile

With modest net worth, low payables and higher reliance on bank lines to meet its high inventory requirements, SEPL's total outside liabilities to total net worth (TOL/TNW) has been moderate at 2.34 times in FY2018 (Provisional) vis-à-vis 2.34 times in FY2017. SEPL's moderate net cash accruals and high debt levels have led to modest interest coverage of 4.63 times in FY2018 (Provisional). Net worth was modest at Rs.2.20 crore as of March, 2018 (Provisional) vis-à-vis Rs.1.67 crore as on March, 2017. Acuité believes that the financial risk profile is expected to improve over the medium term supported by moderate accretion to reserves backed by improving revenue profile.

Weaknesses

Intense competition in the electronics segment

The electronic goods trading industry is intensely competitive with several dealers and SEPL's operating margins could be subject to pricing pressures. Also, sustaining the competition from branded players and improving its market position are key rating sensitivity factors.

Moderate working capital intensive operations with high inventory risk

SEPL's operations are moderately working capital intensive marked by Gross Current Asset (GCA) days of about 137 (Provisional) in FY2018. As SEPL deals in several products and sells through online portals, it maintains high inventory of at least two-three months to ensure there is no stock-out position; though partly mitigated by management's experience of inventory management of slow and fast moving inventory. The major risk would be technology obsolescence due to new and better products in markets with enhanced features which could lead to high unsold inventory. This will result in a stretch in working capital utilisation at about 95 percent over seven months through March 2018 (Provisional) with couple of instances of overdrawals, though approved. Managing the inventory at prudent levels while operating the working capital limits within required limits are key rating sensitivity factors.

Modest scale of operations

SEPL's revenues are modest in the electronics gadgets industry at Rs.17.10 crore in FY2018 (Provisional), though it is a growth by over 100 percent over the first year of operations in FY2017. Though the management believes the revenues to increase to about Rs.30.00–35.00 crore over the medium term, however, it will remain modest.

Analytical Approach

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

Outlook: Stable

Acuité believes SEPL's business risk profile will remain 'Stable' over the medium term from the extensive experience of the promoters and healthy brand penetration. The outlook may be revised to 'Positive' in case of significant improvement in the revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in cash accruals or deterioration in the financial risk profile due to stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)
Operating Income	Rs. Cr.	17.15	8.04
EBITDA	Rs. Cr.	1.86	0.46
PAT	Rs. Cr.	0.88	0.40
EBITDA Margin	(%)	10.85	5.75
PAT Margin	(%)	5.14	5.01
ROCE	(%)	28.42	14.97
Total Debt/Tangible Net Worth	Times	2.05	2.33
PBDIT/Interest	Times	4.63	346.85
Total Debt/PBDIT	Times	2.42	8.06
Gross Current Assets (Days)	Days	137	200

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE B+/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:

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