

Press Release

Seminole Electronics Pvt Ltd

July 17, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE BB' (read as ACUITE double B)** from **'ACUITE B+' (read as ACUITE B plus)** to the Rs.12.50 crore bank facilities of Seminole Electronics Pvt Ltd (SEPL). The outlook is **'Stable'**.

The rating upgrade is based on the improving revenue profile, new business contract from Amazon and improvement in its working capital management. The revenues have increased and stood at Rs.34.64 crore for FY2019 (provisional) surpassing Acuite's estimates of Rs.25.12 crore for FY2019. Further, in FY2020, it entered into a contract for supply of electronic gadgets to Amazon. Also, its working capital management has improved from 200 days of gross current asset (GCA) in FY2017 to about 119 days in FY2019 (Provisional). However, the ratings continue to be constrained by below-average financial risk profile and intense competition in the electronics industry constraining the profitability margins.

Established as a proprietorship firm in November, 2015 as Seminole Tech and later reconstituted into a private limited company as 'Seminole Electronics Private Limited' (SEPL) in December, 2017, the company is engaged in designing and selling of electronic gadgets (outsources the manufacturing / assembling activity) under its own brand name 'MIVI'. The gadgets include speakers, cables, chargers and headphones.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

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. SEPL has strong R&D and design team for electronic gadgets of speakers, earphones, headphones among others; and it outsources the manufacturing to players based at China and Taiwan. Despite existing established brands in the market and MIVI being a new brand entrant, SEPL recorded revenues of Rs.34.00 crore in FY2019 against Rs.8.04 crore in FY2017. The reason for the positive growth is high penetration and positive sales from E-commerce websites such as Amazon, Flipkart, Paytm, TataCLiQ besides their own website 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. Further, to accentuate the growth, it entered into a MoU with Amazon during March 2019, for supply of its products under a new brand of Amazon, with which SEPL's revenues are expected to be in the range of Rs.60-80 crore over the medium term. Acuite believes that the product differentiation and the spirited team are expected to support in improvement of its business risk profile over the medium term.

- **Improving working capital management**

Operations of the company have shown moderate working capital management marked by gross current assets (GCA) of 119 days in FY2019 (provisional) as against 143 days in FY2018 and 200 days in FY2017. Improvement in GCA is owing to improvement in inventory management. Inventory days stood at 50 days in FY2019 (provisional) against 84 days in FY2018. However, the receivable period was elongated and it

stood at 46 days for FY2019 (provisional) against 5 days in FY2018. This was due to changes in receivable terms with its customers. Moderate working capital operations and modest net worth led to high utilisation of its bank lines at about 98 per cent over last six months through March 2019. Also, its current ratio is average at about 1.27 times as of March 31, 2019 (provisional). Promoters of SEPL have infused additional capital in FY2019 and current year to support the revenue growth. Further, SEPL is planning to enhance its working capital limits, and timely sanction and availability of working capital limits are critical for the growth in its operations and efficient working capital management.

Weaknesses

• Below-average financial risk profile

Financial risk profile of the company is below average marked by high gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) as well as moderate debt protection metrics. Gearing and TOL/TNW stood high at 3.14 and 3.87 times as on 31 March, 2019 (provisional) respectively; though improved from 3.42 and 5.56 times as on 31 March, 2018 respectively. Net worth is modest at Rs.2.35 crore as on 31 March, 2019 (provisional) as against Rs.1.14 crore as on 31 March, 2018 due to infusion of equity share capital amounting to Rs.0.82 crore in FY2019 (provisional). Further, it is expected to improve due to additional increment in share capital of Rs.2.00 crore in FY2020 by the promoters. Of the total debt of Rs.7.38 crore as on 31 March, 2019 (provisional), short term debt constitutes Rs.7.16 crore and unsecured loans from promoters of Rs.0.22 crore. The company plans to foray into own manufacturing / assembly setup in Telangana; however, it's at a drawing board stage. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.78 times and 0.12 times respectively in FY2019 (provisional). The company reported cash accruals of Rs.0.88 crore for FY2019. Further, repayment obligations are expected to be nil against annual cash accruals of about Rs.2.00-3.00 crore. Acuite believes that the financial risk profile is expected to improve, however remain moderate on account of modest net worth and working capital intensity amid the growing business plans.

• Intense competition in 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.

Liquidity Position:

SEPL has stretched liquidity characterised by high bank limit utilization, though sufficient cushion in accruals. SEPL reported cash accruals of Rs.0.88 crore for FY2019 (Provisional). Further, repayment obligations are expected to be nil against annual cash accruals of about Rs.2.00-3.00 crore for FY2019 (provisional). Promoters are expecting to infuse about Rs.2.00 crore by way of share capital in FY2020 to support the business growth plans. Its operations are efficiently managed with GCA of about 119 days in FY2019 (provisional); however, due to modest net worth its bank lines are highly utilised at about 98 percent through June, 2019. Its current ratio is moderate at 1.27 times in FY2019 (provisional). Acuite believes that the liquidity profile of SEPL continues to be at similar levels owing to the growth trajectory.

Outlook: Stable

Acuite believes that 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 and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp dip in its profitability, or stretch in its working capital management leading to deterioration in the financial risk profile and liquidity.

About the Rated Entity - Key financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	34.64	16.03	8.04
EBITDA	Rs. Cr.	1.84	1.97	0.46
PAT	Rs. Cr.	0.86	0.53	0.40
EBITDA Margin	(%)	5.32	12.29	5.75
PAT Margin	(%)	2.48	3.32	5.01
ROCE	(%)	24.65	37.69	14.97
Total Debt/Tangible Net Worth	Times	3.14	3.42	2.23
PBDIT/Interest	Times	2.78	4.89	346.92
Total Debt/PBDIT	Times	4.01	1.98	8.06
Gross Current Assets (Days)	Days	119	143	200

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Service sector- <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-July-2018	Secured Overdraft	Long Term	6.50	ACUITE B+/Stable (Assigned)
	Proposed	Long Term	2.50	ACUITE B+/Stable (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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB/Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB/Stable (Upgraded)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.