

Press Release

Bagh Bahar Appliances Private Limited

January 30, 2019

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 110.50 Cr. |
| Long Term Rating | ACUITE A / Outlook: Stable |
| Short Term Rating | ACUITE A1 |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A**' (read as **ACUITE A**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 110.50 crore bank facilities of BAGH BAHAR APPLIANCES PRIVATE LIMITED. The outlook is '**Stable**'.

Bagh Bahar Appliances Private Limited (BBAPL) is a dealer to Shree Sant Kripa Appliances Pvt. Ltd. which is a flagship company of Pune based SYSKA Group. Also, BBAPL is the exclusive distributor for Samsung home appliances in Jalgaon, Aurangabad, and Pune in Maharashtra and in Goa, and mobile distribution in Pune. During FY16, it further expanded its territories at Satara and Sangli in Maharashtra.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Shree Sant Kripa Appliances Pvt. Ltd. (SSKAPL), SYSKA E-Retails LLP (SEL), SYSKA LED Lights Pvt. Ltd. (SLLPL), Bagh Bahar Appliances Pvt. Ltd. (BBAPL), SSK Retails Pvt. Ltd. (SRPL), SSK Infotech Pvt. Ltd. (SIPL) together referred to as the 'SYSKA Group' (SG). The consolidation is in view of the common management, strong operational & financial linkages between the entities and personal guarantee of the promoters, Mr. Govind Uttamchandani and Mr. Rajesh Uttamchandani, for the bank facilities of SEL. The consolidation is also in view of corporate guarantee given by SSKAPL for the term loan facility of SIPL and corporate guarantee given by SIPL and BBAPL for the consortium limits of SSKAPL. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Strong support from the SYSKA Group and established position in mobile distribution business

SYSKA Group (SG) is promoted by Mr. Govind Uttamchandani and Mr. Rajesh Uttamchandani. The promoters of the group have an extensive experience of over three decades in various industries like distribution business and manufacturing segment. The group is engaged in the distribution of Samsung products and trading & manufacturing of LED lights, grooming & personal care products and home wires under the brand name of 'SYSKA'. The promoters in the past have demonstrated the ability to quickly reorient their business models based on changes in market conditions. Earlier, the promoters were engaged in the distribution business for T-Series cassettes and Nokia mobile phones. However, with entry of new players like SAMSUNG with newer technologies and stronger product pipelines, the promoters switched over from their earlier distributorships so as to maintain their revenue growth. SSKAPL, the flagship company of SYSKA Group, was established as a partnership firm in 2002. Later the constitution was changed to private limited in 2006. SSKAPL has established their brand position and a widespread distribution network in the mobile distribution business. Acuité believes the established brand position of 'SYSKA' and wide network along with long standing relations with distributors and dealers will help the group in establishing the presence of 'SYSKA' brand of products across India. Currently, the products sold under 'SYSKA' brand are growing at over 20 percent year on year. In the future, revenue from manufacturing business of 'SYSKA' brand of products is expected to partly de-risk the over dependence of the company on the distribution business of Samsung products. Acuité believes that large scale of operations of the group is well supported by the extensive experience of the promoters and a stable and well experienced management team.

- **Long standing association with a strong brand and a widespread distribution network**

SSKAPL and BBAPL are the exclusive distributors of 'Samsung' brand for distribution of mobile handsets, accessories, tablets, home appliances and other products. Samsung is a multi-national conglomerate which is the world's largest information technology company, consumer electronics maker and chip maker under its industrial affiliate 'Samsung Electronics'. Samsung is present as a leading brand of consumer electronics in almost every major country of the world. Samsung is one of the global leaders in technology driven products and enjoys a huge customer base and a good brand image in India as well as abroad. Samsung is among the top mobile handset selling companies in India since the last 5 years. SSKAPL has been associated with 'Samsung' since 2006 and has established a strong relationship with the brand. The SYSKA group of companies have varied line of businesses which include being the sole distributor of 'Samsung' mobiles, accessories and other home appliances. Further, the other companies in the group are engaged in the manufacturing of LED lights, personal and grooming products and home wires. Having said that, the group has been in distribution business for over three decades. The group has long standing relation with its wide based distribution network. Previously the group was associated in the distribution business with 'T-Series' and 'Nokia'. The group has a strong PAN India presence with more than 450 distributors and over 1,00,000 dealers across the country. Acuite believes the long standing relation with its wide based distributors and dealers will help the company distribute its own products under 'SYSKA' brand such as LED lights, mobile accessories and other products.

- **Healthy financial risk profile**

The rating also derives comfort from the healthy financial risk profile marked by improvement in gearing and comfortable debt protection metrics. The financial risk profile of the company has been healthy marked by net worth of Rs.483.60 crore as on 31 March, 2018 as against Rs.413.13 crore as on 31 March, 2017. The gearing improved to 2.43 times as on 31 March, 2018 as against 2.75 times as on 31 March, 2017 on account infusion of equity. The total debt of Rs. 1,174.64 crore outstanding as on 31 March, 2018 comprises long term debt of Rs.58.02 crore, unsecured loans from promoters and directors of Rs. 40.86 crore and working capital facility of Rs. 1,075.77 crore from the bank. The Interest Coverage Ratio (ICR) improved to 1.78 times in FY2018 from 1.71 times in FY2017. The Net Cash Accruals increased to Rs.57.24 crore in FY2018 from Rs.53.91 crore in FY2017. The NCA/TD ratio remained consistent at 0.05 times for FY2018 and FY2017. Going ahead, the group expects to raise additional funds in the form of equity through private equity or public offering. Acuite believes the ability of the group to maintain their financial risk profile along with improvement in profitability indicators and debt protection metrics will be important for future rating purposes.

Weaknesses

- **Susceptibility of SG's revenue profile to change in consumer preferences amidst intense competition**

SG's revenue profile is linked primarily to Samsung's ability to maintain a strong competitive position in India's intensely competitive mobile handset market. Besides the revenues from Samsung distributorship, the group also derives revenues from sale of products under Syska brand. Its ability to scale up the revenues from its own Syska brand is linked to its ability to maintain a strong product pipeline commensurate with the consumer preferences at competitive prices. SG's revenues from Samsung distributorship comprise more than 90% of its overall revenues. Hence, its revenue trajectory is linked to Samsung'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 technological and market related changes. Samsung has been facing competitive pressures with respect to its market share in the mobile segment especially over the last 2 years. The advent 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 other companies gain a significant share in the mobile market at the expense of larger players like Samsung. Samsung is still among the top players in the Indian mobile market for the past 10 years. Since the SYSKA Group generates more than 90 percent of their revenue through the sale of Samsung products, it has been highly dependent on the market share of Samsung India in the mobile market. Further, Samsung's ability to maintain its market share by adapting , and reinventing itself from time to time according to the changes in consumer preference will remain a key monitorable over the near to medium term. The revenue and margin profile of SG will also be

influenced by Samsung's distribution policies and Samsung's strategy with regard to the Indian market. SSKAPL generally maintains inventory up to 15 to 20 days and hence the risk of technological obsolescence for Samsung mobile phones is significantly mitigated. The risk of facing a loss due to reduced selling price is mitigated up to a certain extent as dealers/ distributors are compensated by Samsung for any loss suffered due to reduction in selling price by a pre-agreed policy. Acuite believes the group's performance is highly dependent on Samsung's market share in India. However, with revenue from the group's products sold under the brand name 'SYSKA' increasing year on year, the group's dependence on Samsung is expected to reduce in the coming years.

Outlook: Stable

Acuite believes that BBAPL will continue to maintain a 'Stable' outlook over the medium term owing to the extensive experience of the management and support from SYSKA Group. The outlook may be revised to 'Positive' if firm reports sufficiently higher than expected growth in accruals translating to an improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of slowdown in the flow of orders or higher than expected debt funded capex resulting in deterioration in firm's financial risk profile.

Liquidity Position

BBAPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.40 crore to Rs.6.30 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.20 crore – Rs.3.20 crore over the same period. The cash accruals of the group are estimated to remain around Rs.6.15 crore – Rs.7.50 crore during 2019-21 while its repayment obligation are estimated to be around Rs.3.10 crore – Rs.4.30 crore. The group's operations are relatively working capital intensive as marked by gross current asset (GCA) days of 114 in FY2018. This has led to increased reliance on working capital borrowings, the cash credit limit in the group remains utilized at 95 percent during the last 12 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.32 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.35 times as on March 31, 2018. Acuite believes that the liquidity of BBAPL 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 Group

SYSKA Group comprises 6 companies that form a part of the SYSKA Group, namely Shree Sant Kripa Appliances Pvt. Ltd. (SSKAPL), Syska E-Retails LLP (SEL), SYSKA LED Lights Pvt. Ltd. (SLLPL), Bagh Bahar Appliances Pvt. Ltd. (BBAPL), SSK Retails Pvt. Ltd. (SRPL) and SSK Infotech Pvt. Ltd. (SIPL). The group is primarily engaged in mobile distribution business exclusively for Samsung under its flagship company - Shree Sant Kripa Appliances Private Limited (SSKAPL). The group has now also ventured into trading & manufacturing of LED lights, home wires and personal care and grooming products under their own brand name of 'SYSKA'. Bagh Bahar Appliances Private Limited (BBAPL) is engaged in the distribution of Samsung home appliances. SSK Retails Private Limited (SRPL) is a retail dealer in a wide range of telecom devices, appliances accessories and peripherals. SRPL currently operates 26 Samsung Smart Phone Cafes across India. SSK Infotech Private Limited (SIPL) provides electronic data services and solutions to telecom and multi-national companies; and printing and mailing activities such as printing of cheques and current/savings account statements, mainly for banks. SYSKA E-Retails LLP (SELLP) is engaged in the trading of SYSKA Brand Products such as LED Bulbs, Tube Lights, Panel Lights, Irons, Extension Boards, Power Banks, Bluetooth, Speakers, and Personal Care grooming products for both men and women through E-Commerce Platforms. SYSKA LED Lights Private Limited (SLLPL) is engaged in the manufacturing of LED Lights, grooming and personal care products and home wires, under the 'SYSKA' brand name.

About the Rated Group - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 11,209.35 | 9,977.14 | 8,515.64 |
| EBITDA | Rs. Cr. | 190.08 | 164.62 | 168.77 |
| PAT | Rs. Cr. | 48.06 | 43.34 | 40.28 |
| EBITDA Margin | (%) | 1.70 | 1.65 | 1.98 |
| PAT Margin | (%) | 0.43 | 0.43 | 0.47 |
| ROCE | (%) | 11.59 | 11.57 | 23.15 |
| Total Debt/Tangible Net Worth | Times | 2.43 | 2.75 | 2.76 |
| PBDIT/Interest | Times | 1.78 | 1.71 | 1.61 |
| Total Debt/PBDIT | Times | 6.02 | 6.65 | 5.14 |
| Gross Current Assets (Days) | Days | 61 | 61 | 59 |

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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. Cr.) | Ratings/Outlook |
|---------------------------------|------------------|----------------|----------------|-----------------------------|------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 45.50 | ACUITE A / Stable (Assigned) |
| Short-term loan | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A1 (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A / Stable (Assigned) |
| Short-term loan | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A1 (Assigned) |
| Purchase bill discounting | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE A1 (Assigned) |
| Channel/Dealer/Vendor Financing | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE A1 (Assigned) |

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|--|---|
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About Acuité Ratings & Research:

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