

Press Release

Bagh Bahar Appliances Private Limited

April 12, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 111.00 Cr. (Enhanced from Rs. 110.50 Cr.)
Long Term Rating	ACUITE A/ Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A1 (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned its long-term rating of '**ACUITE A**' (**read as ACUITE A**) and its short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs. 111.00 crore bank facilities of Bagh Bahar Appliances Private Limited (BBAPL). The outlook is '**Stable**'.

The rating reaffirmation continues to consider the established operational track record and position of the Group in the mobile distribution business, experience of the management and healthy financial risk profile. The rating positively factors in the Group's plans to raise funds in form of equity from private equity firms. The rating constrained by high dependence of Group's revenue on Samsung products and the Group's susceptibility to changing consumer preferences. The Group's ability to improve financial risk profile by successful infusion of funds via equity and increase in scale of operations of 'SYSKA' branded products will remain a key rating sensitivity.

About the Company

BBAPL is a dealer of the flagship company, Shree Sant Kripa Appliances Private Limited (SSKAPL). It was incorporated in 1997 by Mr. Rajesh and Mr. Govind Uttamchandani at Pune. BBAPL is also the exclusive distributor for Samsung mobiles across Pune and its outskirts, LG home appliances in Pune district and Haier home appliances in Mumbai region.

About the Group

SYSKA Group comprises of 6 companies, namely Shree Sant Kripa Appliances Private Limited (SSKAPL), Syska E-Retails LLP (SELLP), SYSKA LED Lights Private Limited (SLLPL), Bagh Bahar Appliances Private Limited (BBAPL), SSK Retails Private Limited (SRPL) and SSK Infotech Private Limited (SIPL). The group is primarily engaged in mobile distribution business exclusively for Samsung under its flagship company SSKAPL. The group is also engaged in the manufacturing and trading of LED lights, home wires, irons, fans and personal care and grooming products under their own brand name of 'SYSKA'. BBAPL is the exclusive distributor for Samsung mobiles across Pune and its outskirts, LG home appliances in Pune district and Haier home appliances in Mumbai region. SRPL currently operates 26 Samsung Smart Phone Cafes across India. 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. SELLP is engaged in the trading of SYSKA Brand Products such as LED Bulbs, Tube Lights, Panel Lights, Irons, Fans, Extension Boards, Power Banks, Bluetooth, Speakers, and Personal Care grooming products for both men and women through E-Commerce platforms. SLLPL is engaged in the trading and manufacturing of LED Lights, grooming and personal care products and home wires, irons and fans under the 'SYSKA' brand name.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Syska E-Retails LLP (SELLP), Shree Sant Kripa Appliances Pvt. Ltd. (SSKAPL), 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 'SSK Group' (SG). The consolidation is in view of the common management, strong operational & financial linkages between the entities and personal guarantee of Mr. Govind Uttamchandani and Mr. Rajesh Uttamchandani for the bank facilities of SELLP. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- Strong support from the SYSKA Group and established position in the 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, manufacturing and trading of LED lights, grooming & personal care products, irons, fans 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. In the future, revenue from trading and 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 principal and a widespread distribution network**

SSKAPL is the exclusive distributors of 'Samsung' brand for distribution of mobile handsets, accessories and tablets. 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 5 mobile handset selling companies in India since the last 10 years. SSKAPL has been associated with 'Samsung' since 2008 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 and accessories. Further, the other companies in the group are engaged in the trading and manufacturing of LED lights, personal and grooming products, irons, fans 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 1000 distributors and over 1,00,000 dealers across the country.

Acuité 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 stable gearing and comfortable debt protection metrics. The financial risk profile of the group has been healthy marked by net worth of Rs.582.76 crore as on 31 March, 2020 as against Rs. 545.69 crore as on 31 March, 2019. The gearing marginally increased to 2.23 times as on 31 March, 2020 as against 2.19 times as on 31 March, 2019 increase in debt. The total debt of Rs. 1301.22 crore outstanding as on 31 March, 2020 comprises long term debt of Rs. 70.27 crore, unsecured loans from promoters and directors of Rs. 41.82 crore and working capital facility of Rs. 1189.13 crore from the bank. The Interest Coverage Ratio (ICR) stood at 1.43 times in FY2020 from 1.61 times in FY2019. For 9M FY2021 financial risk profile has remained stable. Gearing stood at 1.76 times and interest coverage ratio at 1.47 times. For 9M FY2021 (Provisional) there has been a substantial decline in scale of operations on account of spread of COVID 19 and subsequent lockdowns. This has led to decline in debt levels and total gearing which

stood at ~Rs. 917.20 crore and 1.76 times for the same period. Further, the group has planned divestment of its stake in SLLPL to a private equity investor. The proceeds of the same are expected to reduce the external debt burden to an extent. Acuite expects the gearing of the Group to remain in the range of -1.00 -1.50 times.

Acuité expects the Group's financial risk profile to improve over the medium on account of additional fund infusion in the form of equity from private equity.

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. Although SG revenues from Samsung distributorship have declined over the past two years, however they still comprise around 80 percent 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 5 players in the Indian mobile market for the past 10 years. Since the SYSKA Group generates around 80 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 20-25 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 as dealers/ distributors are compensated by Samsung for any loss suffered due to reduction in selling price by a pre-agreed policy. Besides the revenues from Samsung distributorship, the group also derives revenues from sale of products under SYSKA brand where they are able to generate higher margins. The revenue from the own branded products has been increasing over the past 2 - 3 years however it still remains around 20 percent of the overall revenue. The Group has plans to scale up this business with augmentation of product profile and infusion of additional funds to be raised from private equity.

The ongoing COVID 19 pandemic has also had a significant impact on consumer preferences. It has led to higher adoption of online shopping as social distancing and stay at home were adopted. SG's has sales through online portal form a small percentage of its overall revenue. SG's limited presence in the online segment will impact their scale of operations to some extent going ahead e-commerce in India is expected grow. It is expected to reach USD 111 billion by 2024.

Acuité believes the group's ability to improve scale of operations for their 'SYSKA' branded products will remain a key rating sensitivity over the medium term.

Liquidity Position: Adequate

The Group generated cash accruals of Rs. 44.21 crore to Rs. 57.24 crore during the last three years through 2020, while its maturing debt obligations were in the range of Rs. 18.27- 31.52 crore over the same period. The cash accruals of the group are estimated to improve to Rs. 35.84 crore – Rs. 176.83 crore during 2021-23 while its repayment obligation are estimated to be around Rs. 18.00 crore – Rs.20.00 crore. Further the net cash accruals are expected to decline in FY2021 on account of Covid spread. However, SG is still expected to maintain adequate net cash accruals to its maturing debt obligations. The Group's operations are relatively less working capital intensive as marked by gross current asset

(GCA) days of 79 in FY 2020. This has led to moderate reliance on working capital borrowings, the cash credit limit in the group remains utilized at 90 percent during the last 6 months period ended December 2020. The group has maintained unencumbered cash and bank balances of Rs. 11.42 crore as on March 31, 2020. The current ratio of the group stands comfortable at 1.40 times as on March 31, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual vis-à-vis repayment obligation over the medium term and working capital efficiency.

Rating Sensitivities

- Ability to improve scalability of 'SYSKA' branded products
- Ability to improve financial risk profile by successful infusion of fund via equity

Material Covenants

None

Outlook: Stable

Acuité believes that SG will continue to maintain a 'Stable' outlook over the medium term owing to the extensive experience of the management and established presence in the industry. The outlook may be revised to 'Positive' if the group 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 higher than expected deterioration in operating performance or working capital management leading to decline in liquidity profile of the Group.

About the Rated Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	9,162.50	11,004.63
Profit after Tax (PAT)	Rs. Cr.	36.27	41.14
PAT Margin	(%)	0.40	0.37
Total Debt/Tangible Net Worth	Times	2.23	2.19
PBDIT/Interest	Times	1.43	1.61

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.htm>
- Criteria for Consolidation of Companies– <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
27-Feb-2020	Cash Credit	Long Term	45.50	ACUITE A/Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE A/Stable (Reaffirmed)

	Short Term Loan	Short Term	5.00	ACUITE A1 (Reaffirmed)
	Channel/ Dealer/ Vendor Financing	Short Term	15.00	ACUITE A1 (Reaffirmed)
30-Jan-2019	Cash Credit	Long Term	45.50	ACUITE A/Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A/Stable (Assigned)
	Short Term Loan	Short Term	5.00	ACUITE A1 (Assigned)
	Short Term Loan	Short Term	5.00	ACUITE A1 (Assigned)
	Purchas Bill Discounting	Short Term	15.00	ACUITE A1 (Assigned)
	Channel/ Dealer/ Vendor Financing	Short Term	15.00	ACUITE A1 (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	45.50	ACUITE A/Stable (Reaffirmed)
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A/Stable (Reaffirmed)
WCTL	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A/Stable (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1 (Reaffirmed)
Channel/ Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A1 (Assigned)
Channel/ Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 (Withdrawn)

* All cash credits are fully interchangeable with WCDL

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About Acuité Ratings & Research:

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