

Press Release

Reach Distributors (India) Private Limited

December 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB-/ Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.10.00 crore bank facilities of Reach Distributors (India) Private Limited (RDPL). The outlook is 'Stable'.

Reach Distributors (India) Private Limited (RDPL), based out of Koramangala, Bangalore was incorporated in the year 2008 by Mr. Ricky Gosain and his wife Mrs. Simran Gosain. The Company initially was into selling, distribution and branding for BPL electronics. It was a licensed distributor of BPL TVs in 20 states. Currently, since FY2018, the company sells its own LED TV brand named "NVY".

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced Management

RDPL was incorporated in the year 2008 by Mr. Ricky Gosain and his wife Mrs. Simran Gosain who have an experience of more than two decades in the electronics business. Mr. Ricky worked as a National Head at BPL and had also held several managerial positions in other electronics manufacturing companies. The Company was earlier into selling, distribution and branding of BPL electronics items in 20 states and currently sells LED Television sets and audio sets under its own brand name "NVY" with presence in 5 states includes entire South India and Maharashtra. The company plans on diversifying into other consumer electronics items in the medium term which is expected to add additional comfort on the scale of operations. The Company has achieved a turnover of Rs.20.63 crore in FY2019. Acuite believes that the management's experience is expected to support in improvement of its business risk profile over the medium term.

Weaknesses

• Working capital intensive management

Operations of the company have shown intensive working capital management marked by gross current assets (GCA) of 135 days in FY2019 as against 156 days in FY2018. Inventory days stood at 90 days in FY2019 against 84 days in FY2018. The receivable period was elongated and it stood at 48 days for FY2019 against 33 days in FY2018. Operations of RDPL require ample inventory at its disposal to cater to its customers and that has led to high utilization of its bank lines at about 95 per cent over last six months through March 2019. Further, RDPL 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.

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by moderately 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 2.38 and 3.70 times as on 31 March, 2019 respectively; though improved from 3.28 and 10.72 times as on 31 March, 2018 respectively. Net worth is low at Rs.1.78 crore as on 31 March, 2019 (provisional) as against Rs.0.88 crore as on 31 March, 2018. Of the total debt of Rs.4.24 crore as on 31 March, 2019, short term debt constitutes Rs.3.74 crore and unsecured loans constitutes Rs.0.50 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD)

stood moderate at 1.33 times and 0.04 times respectively in FY2019. The company reported cash accruals of Rs.0.18 crore for FY2019. Acuite believes that the financial risk profile is expected to improve, however remain moderate on account of low net worth and working capital intensity amid the growing business plans.

• Geographic concentration risk and fragmented industry

The operations of PTPL are concentrated in Tamil Nadu and it operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of organised and unorganised players in the sector limits the bargaining power with customers.

Rating Sensitivities

- Improvement in the scale of operations with respect to its growth in revenue; sustainability in its profitability margins
- Stretch in working capital management leading to stretch in liquidity

Material Covenants

None

Liquidity Position: Stretched

RDPL has stretched liquidity characterised by high bank limit utilization, along with moderate accruals. The company reported cash accruals of Rs.0.18 crore for FY2019. Further, the repayment obligations are expected to be nil against annual cash accruals of about Rs.0.30 to 0.80 crore for FY2019. Its operations are managed moderately with GCA of about 133 days in FY2019; however due to its inventory policy its bank lines are highly utilised at about 95 percent through October, 2019. Its current ratio is moderate at 1.74 times as on March 31, 2019.

Outlook: Stable

Acuite believes RDPL's business risk profile will remain 'Stable' over the medium term from the extensive experience of the promoters. The outlook may be revised to 'Positive' in case of significant improvement in the revenues while sustaining the profitability as well as market share. Conversely, the outlook may be revised to 'Negative' in case of significant pile up of inventory and 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	20.63	22.30
PAT	Rs. Cr.	0.15	0.10
PAT Margin	(%)	0.75	0.45
Total Debt/Tangible Net Worth	Times	2.38	3.28
PBDIT/Interest	Times	1.33	1.39

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Manufacturing sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- Entities in Trading sector- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to 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	3.90	ACUITE BB-/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE BB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 040-40042327 sagarikaa.mukherjee@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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