Press Release

Reach Distributors (India) Private Limited

March 02, 2021

Rating Upgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

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

The rating upgrade is based on the improving revenue profile, expanding business by way of increased chain of dealers and presence in major retail chains in South India and sustained financial risk profile. The revenues have increased and stood at Rs.34 Cr in 11MFY2020 against Rs. 24 Cr in FY2020 coupled with sustained profitability at 3 % to 4%. However, the ratings continue to be constrained due to stretched liquidity position and on account of intense competition in the electronics industry constraining the profitability margins.

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. Since 2018, the company is selling its own LED TV brand named "NVY".

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RDPL for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced proprietor and long track record of operations**
  RDPL was incorporated in the year 2008 by Mr. Ricky Gosain and his wife Mrs. Simran Gosain who have 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. Acuité believes that the management's experience is expected to support in improvement of its business risk profile over the medium term.

Weaknesses

- **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 1.86 and 3.59 times as on 31 March, 2020 respectively; though improved from 2.38 and 3.70 times as on 31 March, 2019 respectively. Net worth is low at Rs.2.16 Cr as on 31 March, 2020 as against Rs.1.78 Cr as on 31 March, 2019. Of the total debt of Rs.4.03 Cr as on 31 March, 2020, short term debt constitutes Rs.3.87 Cr and unsecured loans constitutes Rs.0.16 Cr.
  Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.38 times and 0.10 times, respectively in FY2020. The company reported cash accruals of

Rs.0.41 Cr for FY2020 against no repayment obligations. Acuité 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

- **Moderately working capital intensive operations**
  Operations of the company have demonstrated moderately intensive working capital management marked by gross current assets (GCA) of 138 days in FY2020 as against 135 days in FY2019. Inventory days stood at 102 days in FY2020 against 90 days in FY2019 due to pile up of inventory during March 2020 on account of outbreak of pandemic and lockdown in the country. The receivable period has improved and it stood at 25 days for FY2020 against 48 days in FY2019. 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 100 per cent over last six months through January 2021. 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.

Rating Sensitivities

1. Growth in the operations with sustained improvement in the profitability margins
2. Elongation in the working capital management leading to any negative impact on the liquidity profile

Liquidity: Stretched

RDPL has stretched liquidity characterised by high bank limit utilization, along with moderate accruals. The company reported cash accruals of Rs.0.41 Cr for FY2020. Further, the repayment obligations are expected to be ~Rs.0.34 Cr against annual cash accruals of about Rs.0.81 to 1.10 Cr for FY2021 to 2023. Its operations are managed moderately with GCA of about 135 days in FY2020; however, due to its inventory policy its bank lines are highly utilised fully through January, 2021. Its current ratio is moderate at 1.27 times as on March 31, 2020.

Outlook: Stable

Acuité 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 unsold 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	24.36	20.63
PAT	Rs. Cr.	0.38	0.15
PAT Margin	(%)	1.56	0.75
Total Debt/Tangible Net Worth	Times	1.86	2.38
PBDIT/Interest	Times	1.38	1.33

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

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
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.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. Cr.)	Ratings/Outlook
09-Dec-2019	Cash Credit	Long Term	3.90	ACUITE BB-/Stable (Assigned)
	Proposed	Long Term	5.10	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (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	5.50	ACUITE BB/Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:
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