Press Release

Digilogic Distribution Services Private Limited

February 27, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.17.00 crore
Long Term Rating	ACUITE BB-/ Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.17.00 crore bank facilities of DIGILOGIC DISTRIBUTION SERVICES PRIVATE LIMITED (DDSPL). The outlook is **'Stable'**.

Incorporated in the year 2011, DDSPL is a Delhi- based company. The company is promoted by Mr. Rajiv Naswa, Mr. Sanjiv Naswa, Mr. GL Naswa and Mrs. Mona Naswa. The Company is an authorized distributor for Xiaomi India in West Delhi. The company earlier had the distributorship for Nokia from 2011 to 2018 and from February 2018, the company is the authorized distributor for Xiaomi India. The product line includes Mobile phone handsets, Television, Air Purifiers, Water Purifiers, other accessories, etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of DDSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

DDSPL is promoted by Mr. Rajiv Naswa, Mr. Sanjiv Naswa, Mr. GL Naswa and Mrs. Mona Naswa. The promoters of the company have been engaged in the distribution of telecom products for around two decades through various entities. The experience of the promoters has helped in establishing healthy relationships with its customers and suppliers. The company caters to customers like Electronic Kingdom, Benz India Private Limited, Mangla Telecom Centre among others with no major concentration in its revenue profile. On the back of stable and repeat orders by the key customers, the revenues of the company have grown at a CAGR of around ~120 percent over the past three year through FY2019 at Rs.269.84 crores in FY2019 as against Rs.45.48 crore in FY2018 and Rs.25.29 crore in FY2017.

Acuité believes that the company will benefit from the experience of the management in the aforementioned industry.

- **Efficient Working Capital Management**

DDSPL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 20 days estimated as on March 31, 2019. The company maintains an inventory of around 12 days. On the other hand, the company gets 11 days credit from its suppliers. As a result, the reliance on working capital limit is low, leading to low utilization of its bank lines at an average of ~33.20 percent over the last seven months ended December 2019. While the peak utilization is ~92.63 percent during the same period.

Acuité expects the working capital management to remain efficient over the medium term on account of lean inventory levels maintained by the company.

Weaknesses

- **Highly competitive Industry**

The company is operating in the mobile handset and electronics segment in India, which is characterized by presence of well-established big players such as Samsung, Apple, One Plus, among others. The advents of other brands such as Oppo, Vivo and others have proved to be intensely competitive in terms of features and pricing. The ability of these companies to continuously churn out new models with a strong value proposition for the consumer has helped them to gain a significant share in the mobile market. Further, apart from mobile handsets, DDSPL has also ventured into the consumer electronics segment like Television, Air Purifiers, Water Purifiers, etc.

- **Average financial risk profile**

DDSPL's financial risk profile is average, marked by low net worth, moderate gearing and modest debt protection metrics. DDSPL's net worth has remained low at around Rs.3.77 crore as on March 31, 2019 as against of Rs.2.44 crore in FY2018. The net worth levels have remained low due to modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2019. Though the revenue of the company is expected to remain in the range of Rs.272.55 crore to Rs.278.08 crore over the medium term, the low operating margins are likely to lead to limited accretion to reserves. Acuité expects the net worth to remain modest in the range of Rs.5.26 crore to Rs.8.70 crore over the medium term, in the absence of any equity infusion by the promoters.

The leverage levels continue to remain high to around 1.04 times as on March 31, 2019. The company incurred capex of Rs.0.04 crore over the last three year to expand its scale of operation while its incremental working capital requirements over the same period to support the increase in scale of operations has been around Rs.1.75 crore. The company on the other hand generated cash accruals in the range of Rs.1.30 crore to Rs.1.40 crore over the same period. Lower accruals and accretions to reserve led to higher debt levels as on March 31, 2019. The gearing however is expected to deteriorate at around 0.76 times as on March 31, 2020.

Rating sensitivity factor

- Improvement in operating income and profitability thereby improving the overall financial risk profile.
- Inventory pile up.

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by modest net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.37 crore in FY2019 as against no maturing debt obligations during the same period. The cash accruals of the company is estimated to remain around Rs.1.52 crore to Rs.1.81 crore during 2020-22 against no repayment obligations. The company's working capital operations are efficient marked by the gross current asset (GCA) days of 20 days for FY2019 as against 61 days in FY2018. The average bank limit utilization stood at ~33 per cent for last seven months ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.0.01 crore as on 31 March 2019. The current ratio stands at 1.36 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of modest net cash accruals to no debt repayments over the medium term.

Outlook: Stable

Acuité believes that DDSPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	269.84	45.48
PAT	Rs. Cr.	1.33	0.22
PAT Margin	(%)	0.49	0.48
Total Debt/Tangible Net Worth	Times	1.04	0.60
PBDIT/Interest	Times	4.45	1.61

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
- Entities in Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.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	4.75	ACUITE BB-/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB-/ Stable

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Kumar Abhisek Ratings Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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.