

Press Release

Cocoblu Retail Limited

February 16, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	34.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	66.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 100 Cr bank facilities of Cocoblu Retail Ltd (CRL). The outlook is '**Stable**'.

Rationale for rating

The rating takes into account the experience of management, CRL's adequate capital structure and comfortable coverage indicators. It also takes into account the improvement in revenue in H1 FY2023 on account of seller status on Amazon and soar in e-commerce transactions. CRL has reported the revenue of Rs.1861.83 Cr during H1 FY2023 against Rs.10.82 Cr reported for FY2022. Rating also draws comfort from Rs.160 Cr equity capital raised in FY2022 and Rs.190.00 Cr equity capital raised in H1 FY2023. However, limited track record of CRL post operating at expanded scale acts as constraining factor.

About the Company

Cocoblu Retail Limited (CRL) is a fully owned subsidiary of RattanIndia Enterprises Limited (REL) to venture into e-commerce / online retail business segment. CRL has signed up a long-term business agreement with Amazon for partnering with this leading player in online marketplace segment and has formally launched the business on 24th February 2022. CRL is prominent online retail seller in categories of apparels, shoes, wireless accessories, musical instruments, office products and books. Directors of the Company are Mr Surinder Kumar Aery(Director), Mr Rahul Gochhwal(Director), Mr Amit Jain(Director), Mr Soumik Bhusan(Cocoblu CFO and Director), and Mr Amit Jain(REL group CFO and Director).

Analytical Approach

Acuite has considered the standalone business and financial risk of CRL to arrive at the rating.

Key Rating Drivers

Strengths

Established market position on Amazon India platform

CRL is a registered seller with Amazon India and uses big data, ML tools, and AI tools to analyze and manage the customer requirements, product demand and taste preferences of customer which enables CRL to make better business decisions. This AI based technology helps in streamline, optimize and polish the various aspects of the brand and helps them excel in e commerce market. Company is engaged in retail sales of products such as Apparels, shoes, wireless accessories, musical instruments, office products and books. CRL maintains its inventory at Amazon's fulfilment centres and pay fees to Amazon for stock maintenance and delivery.

Moderate Financial risk profile

CRL's financial risk profile is moderate marked by healthy capital structure and coverage indicators. Company's net worth stood at Rs. 155.10 Cr as on March 31st 2022, further promoters group infused capital of Rs. 190 Cr in form of equity share capital during FY2023. Total debt consists of inter corporate deposits of Rs. 0.41 Cr as on March 31st 2022 and Rs. 150 Cr as on September 30th 2022. The Total outside liabilities to Tangible net worth stood at 0.52 times for FY2022. Going forward, CRL's capital structure is expected to remain moderate with gearing ratios is expected to remain in range of 0.45 times to 0.50 times for FY2023 and FY2024.

Acuite believes that CRL's ability to scale up and stabilize its operations and margins will remain key for its financial risk profile.

Moderate working capital cycle

Moderate working capital cycle Company's operations are working capital moderate in nature with GCA days expected to be on an average around 90 days going forward as receivables are limited to Amazon India Ltd, and usually payments are received within 5 to 7 days. The inventory days are expected to remain on an average around 80 days due to bulk inventory purchased from the erstwhile seller. However, the average bank limit utilization is 85 percent during November and December 2022.

Weaknesses

High Competition and Low Customer Loyalty in E-commerce Business

Despite the rapid expansion of the e-commerce industry, the Indian retail market is still dominated by traditional brick and mortar players, and a large number of smaller unorganised players. The online retail sector is highly competitive with the presence of a large number of sellers providing bargaining power to customers with low switching costs, leading to very low customer loyalty. The competition in the e-tailing sector is rapidly evolving with new large entrants with strong financial flexibility foraying into the sector, the impact of which still remains to be seen. Customers' preference to prioritise spending on essentials amid increasing inflation and high fuel prices could also hurt the discretionary spending power in the near term.

Vulnerability to regulatory changes

In the past couple of years, the e-commerce industry has witnessed the introduction of several regulations which could have an impact on the operations of the entities involved. CRL's business profile could also be impacted if any regulatory changes impact the CRL's market position or those of the brands and platforms it is associated with. However, given current regulatory framework we dont see any further regulatory challenges in medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Any deterioration in the operating margins or a stretch in the working capital, leading to a deterioration in the financial performance

Material covenants

None

Liquidity: Adequate

Company's liquidity position is adequate with company having liquid investments of Rs 195.86 as on HY1FY2023 and cash and bank balance of Rs 60.52 Cr as on HY1FY2023. However, current ratio stood at 0.97 times as on March 31 st 2022. The average bank limit utilization is 85 percent during November and December 2022.

Outlook: Stable

Acuité believes that CRL will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience, Strong product profile, and strong dealership network. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt-funded capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	10.82	0.00
PAT	Rs. Cr.	(4.91)	0.00
PAT Margin	(%)	(45.39)	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	(1.96)	0.00

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE A3+ Assigned
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	34.00	ACUITE BBB- Stable Assigned
RBL Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	50.00	ACUITE A3+ Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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