

March 31, 2023

## Rocket Kommerce LLP: Update on entity

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/short-term- Fund based/Non-fund based working capital facilities	520.00	520.00	[ICRA]A-(Stable)/[ICRA]A2+; outstanding
<b>Total</b>	<b>520.00</b>	<b>520.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating factors in Rocket Kommerce LLP's / Group's<sup>1</sup> healthy scale of operations with an estimated turnover of around Rs. 16,300 crore in FY2023 (PY: Rs. 10,218 crore and 8MFY2023 at Rs. 12,771 crore), supported by increased sales from new product segments such as fabrics and FMCG and its established presence on multiple prominent e-commerce platforms in the country. The higher profitability in these new segments is expected to increase the OPBDITA to Rs. 115 crore in FY2023 which in turn shall improve the PBDIT<sup>2</sup>/interest cover in the near to medium term. Further, on the back of increased sales from new product segments, the Group has been able to diversify its revenue profile – the dependence on mobile phones and electronic appliances has reduced to 56% of the revenues in 8M FY2023 from 89% in FY2021. The Group has been able to partner reputed and leading brands like Oneplus, Oppo, and Xiaomi in the mobile handset segment, and with P&G, HUL, Reckitt Benckiser, L'Oréal etc. in the FMCG segment.

The ratings are, however, constrained by the thin profitability margins and high working capital borrowings due to a rise in inventory levels on account of increase in the number of segments/products handled and stock-up of certain brands during year-end. RKL's NWC/OI was 1.2% in FY2022 against 0.2% in FY2021. Consequently, the total debt increased to Rs. 565.0 crore in March 2022 from Rs. 86.3 crore in March 2021. RKL's PBDIT/interest moderated from 7.8 times in FY2021 to 3.5 times in FY2022 due to increase in finance charges. However, the PBDIT/interest improved to 5.7 times in 8M FY2023, supported by improvement in OPBDITA. The utilisation of the working capital lines remains volatile, peaking during the festive season, sales events or any launches. Hence, managing the liquidity position during the peak season will be critical.

Additionally, with the expansion into new product categories and business segments, a prudent working capital management shall remain a key monitorable. Further, RKL is exposed to regulatory risks and any adverse changes in the regulatory environment can have a material impact on the accruals. Over the years, the Group has withdrawn capital from these businesses to invest in the other ventures within the Group; the extent of such withdrawals and the impact on the liquidity profile of the Group will remain a key monitorable.

The Stable outlook on the [ICRA]A- rating reflects the long and established track record of the Group in the trading and distribution business and the improvement in operating profit margins with the diversification in the product portfolio on the back of new tie-ups.

<sup>1</sup> ICRA has considered consolidated financials of Rocket Kommerce LLP, along with other group companies – RK World Infocom Private Limited, Valuecart Private Limited, Westbury Holdings Private Limited, Wishery Online Private Limited, Ventura Trading Private Limited, RK Fabrics (India) Private Limited, Rocket Kars LLP, collectively referred to as RKL or the Group as they have strong managerial and financial linkages.

<sup>2</sup> PBDIT=OPBDITA + non-operating income

## Key rating drivers and their description

### Credit strengths

**Healthy scale of operations of Group** – The Group reported a healthy scale of operations with revenues of Rs. 12,771 crore in 8M FY2023 (estimated turnover for FY2023 is Rs. 16,300 crore). The Group has an established presence on multiple prominent e-commerce platforms in the country.

**Association with reputed and leading consumer brands** – Over the years, the Group has partnered reputed and leading brands like Oneplus, Oppo, and Xiaomi in the mobile handset segment, and P&G, HUL, Reckitt Benckiser, L'Oréal and others in the FMCG segment. ICRA expects the revenue growth to continue to be supported by the Group's association with reputed brands and growing penetration of e-commerce sales.

**Increasing diversification across product categories** – RKL is one of the leading players in the e-commerce platform with presence in over 800 brands and a large network of dealers. It offers a wide array of products in the FMCG segment, mobile handsets and electronic appliances. RKL is focused on increasing its product offerings, which are expected to support future growth with the share of mobile phones and electronic appliances in the revenue declining to 56% in 8M FY2023 from 89% in FY2021.

### Credit challenges

**Thin profitability margins** – RKL's profitability margins are modest on account of the low value addition, inherent to the nature of the trading business. The operating margin was 0.3% in FY2021 and 0.4% in FY2022 at a consolidated level. However, with the introduction of new products in the FMCG segment, cars, etc, the profitability in the current year is likely to remain higher than the earlier years, though the same shall continue to be modest.

**Increasing working capital borrowings** – The Group's working capital requirement has fluctuated significantly, peaking during the festive season, sales events or any launches. Further, on account of increase in the number of segments/products handled and stock-up of certain brands, the inventory levels of the Group increased in FY2022 and FY2023YTD. RKL's NWC/OI was 1.2% in FY2022 against 0.2% in FY2021. Further, with the increase in working capital requirement to fund its inventory needs, the total debt increased to Rs. 565 crore in March 2022 from Rs. 86.3 crore in March 2021. RKL's PBDIT/interest moderated to 3.5 times in FY2022 from 7.8 times in FY2021 due to high finance charges. However, the PBDIT/interest improved to 5.7 times in 8M FY2023, supported by higher OPBDITA. The utilisation of the working capital lines remains volatile, peaking during the festive season, sales events or launches, as was witnessed in the high working capital utilisation in a few months in 8M FY2023. Thus, managing the liquidity position during the peak season will be critical.

**Intense competition and regulatory risks in e-commerce business** – The company faces intense competition from other sellers on the online marketplace, and from offline retailers, along with low customer loyalty on the online platforms for the e-commerce business. The online retail industry remains exposed to regulatory interventions, which can alter the competitive landscape significantly and remains a key rating monitorable

### Liquidity position: Adequate

RKL's liquidity is adequate. The Group had unencumbered cash and equivalents of Rs. 9.0 crore as on November 30, 2022. At a standalone level, the average working capital utilisation was 82.7% during the 14-month period ended September 2022. In the absence of any term liabilities and capex commitment in future, the Group is expected to generate adequate accruals to meet its growth, working capital and debt servicing requirements. However, managing the liquidity position during the peak season/sales period will be critical.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings in case of a significant and sustained increase in scale of operations and profitability, along with an improvement in its debt protection metrics and liquidity position. A specific credit metric that could lead to an upgrade is PBDIT/interest coverage ratio of over 5.0 times on a sustained basis.

**Negative factors** – Pressure on the firm’s ratings could arise in case of a decline in the company’s profitability, or a further increase in the working capital intensity of operations. Inability of the company to improve its liquidity position on a sustained basis will also affect the ratings. Further, a fall in PBDIT/interest coverage ratio below 4.0 times on a sustained basis will be credit negative. Additionally, any regulatory change which would adversely impact the business profile or a large withdrawal of capital for investments in group companies that significantly impacts the Group’s liquidity or leverage position will be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach - Consolidation</a> <a href="#">Rating Methodology for Entities in the Retail Industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of Rocket Kommerce LLP, along with other group companies (as mentioned in Annexure -2), RK World Infocom Private Limited, Valuecart Private Limited, RK Fabrics (India) Private Limited, Westbury Holdings Private Limited, Wishery Online Private Limited, Ventura Trading Private Limited, Rocket Kars LLP, as they have strong managerial and financial linkages.

## About the company

Rocket Kommerce LLP (RKL), incorporated in 2011, is a leading e-commerce retailing company in India. It has been partnering leading e-commerce platforms like Amazon in India since 2014. It currently procures mobile phones from brands like Oppo, Oneplus and Xiaomi and sells them on the Amazon platform. Also, in October 2020, the LLP had entered into an agreement with Aditya Birla Fashion and Retail Privat Limited to engage in the business of procurement and distribution of textiles, fabrics, apparel and other products.

Wishery Online Private Limited was incorporated on September 4, 2015, and commenced operations from FY2019. It carries out the distribution business for sellers on the Flipkart platform. Westbury Holdings Private Limited was incorporated on March 27, 2007, and commenced operations from January 2021. Westbury is the authorised and exclusive online distributor for Aditya Birla Fashion and Retail for all its brands (Peter England, Louis Phillipe, Pantaloons) for various online platforms. Valuecart Private Limited was incorporated on July 11, 2016 and began operations from April 2019. It procures goods from foreign brands and sell them on Amazon. RK World Infocom Private Limited began as a distributor for Nokia in July 2003 and in Q4 FY2022 and also started dealing in FMCG products. The Group is also involved in the trading and procurement of fabrics through RK Fabrics India Private Limited. Ventura Trading Private Limited started its operations from May 2022 and procures fabric (for Arvind Ltd.) and finished products (for Arvind Fashion Ltd.) from various small vendors and supplies the same depending upon the requirement to Arvind Group.

## Key financial indicators

	RK LLP Standalone		Consolidated*	
	FY2021 Audited	FY2022 Audited	FY2021	FY2022
Operating income (Rs. crore)	2923.86	2851.76	10072.65	10218.41
PAT (Rs. crore)	15.79	13.33	37.07	38.20
OPBDIT/OI (%)	0.92%	0.99%	0.35%	0.44%
PAT/OI (%)	0.54%	0.47%	0.37%	0.37%
Total outside liabilities**/Tangible net worth (times)	2.98	6.20	6.76	12.17
Total debt/OPBDIT (times)	2.48	8.34	2.47	12.54
Interest coverage (times)	5.54	2.32	6.29	2.79

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/Avg (Total debt + Tangible net worth + Deferred tax liability - Capital work in progress); DSCR: (PBIT + Mat credit entitlements - Fair value gains through P&L - Non-cash extraordinary gain/loss)/(Interest + Repayments made during the year);\*standalone audited financials added manually; \*\*includes unsecured loans of Rs. 10.6 crore in FY2021 and Rs. 16.5 crore in FY2022 at standalone level, Rs. 30.2 crore in FY2021 and Rs. 78.5 crore in FY2022 at consolidated level.

Source: Company data; ICRA research

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022, 2022 (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years		
					Date & rating on		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 31, 2023	Dec 30, 2022	Sep 24, 2021	Nov 16, 2020	-
1	Fund Based/Non fund based working capital facilities	Long term and short term	520.00	-	[ICRA]A-(stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable) / [ICRA]A2	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund Based/Non fund based working capital facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based/Non fund based working capital facilities	NA	NA	NA	135.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Fund Based/Non fund based working capital facilities	NA	NA	NA	310.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Fund Based/Non fund based working capital facilities	NA	NA	NA	75.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company data; ICRA Research

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure-2: List of entities considered for consolidated analysis**

Company	Ownership	Consolidation Approach
Wishery Online Private Limited	-	Full Consolidation
Ventura Trading Private Limited	-	Full Consolidation
Westbury Holdings Private Limited	-	Full Consolidation
Valuecart Private Limited	-	Full Consolidation
RK Fabrics (India) Private Limited	-	Full Consolidation
RK World Infocom Private Limited	-	Full Consolidation
Rocket Kars LLP	-	Full Consolidation

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 4547 4829  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Anupama Reddy**  
+91 40 4547 4829  
[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

**Neha Mittal**  
+91 124 4545 365  
[Neha.mittal@icraindia.com](mailto:Neha.mittal@icraindia.com)

**Mididoddi Vineeth**  
+91 80 4332 6408  
[mididoddi.vineeth@icraindia.com](mailto:mididoddi.vineeth@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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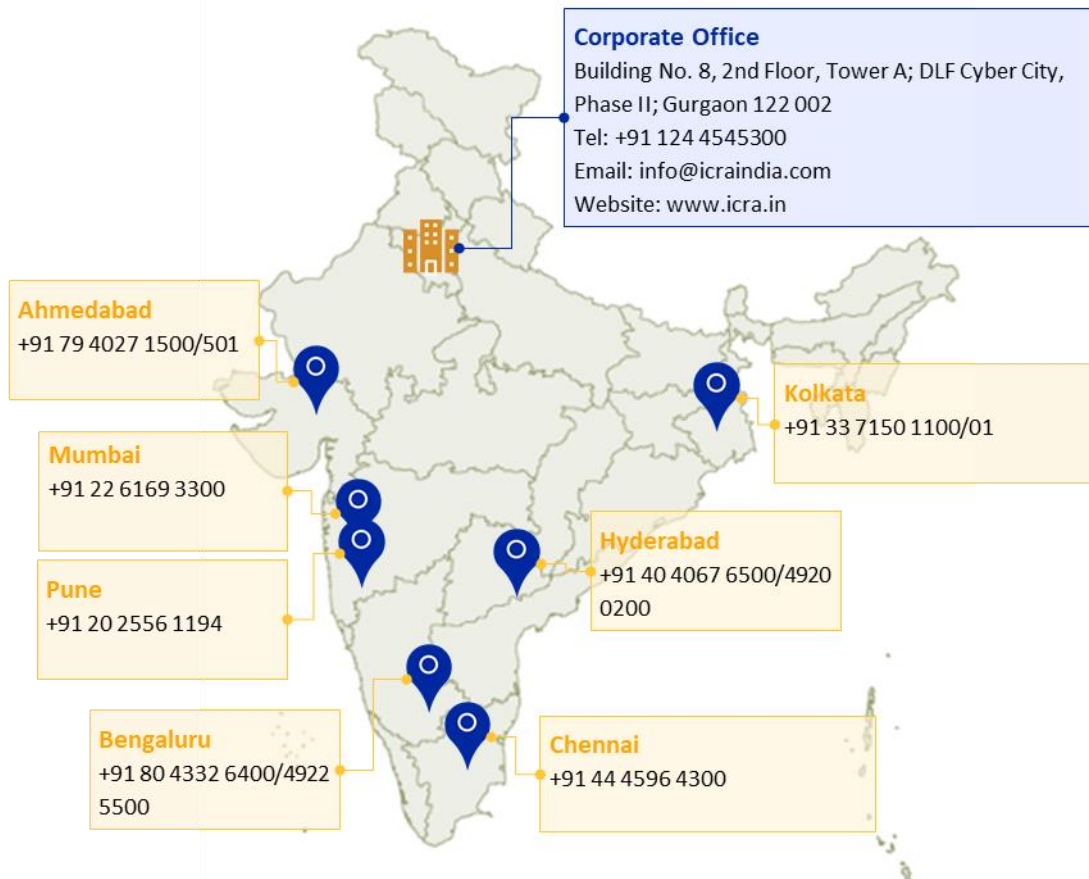
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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