March 27, 2024

RK World Infocom Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term-Fund based-Cash Credit	200.00	200.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Long-term/short-term-Fund based/Non-fund based working capital facilities	300.00	300.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for RK World Infocom Private Limited (RKWIPL) factors in an estimated growth in operating income (OI) by 23-25% in FY2024 (PY: Rs. 4,400 crore) and by 10-12% in FY2025, backed by healthy demand of fast-moving consumer goods (FMCG) on e-commerce platforms due to increasing digital penetration. The company has established relationships with brands such as P&G, HUL, Reckitt Benckiser, Loreal, among others. It is also catering extensively to oral care, personal care, healthcare, bath and shower, beauty tools and accessories and other FMCG goods. It has working capital limits of Rs. 500 crore and Rs. 49 crore (OD against FD) as of December 2023 to support these operations. RKWIPL is a part of the RK Group and given the close managerial linkages, corporate guarantees extended among RK Group entities and RKWIPL's strategic importance to the RK Group, ICRA expects that the Group will be willing to extend timely financial support to RKWIPL, if need arises.

The ratings are, however, constrained by RKWIPL's modest financial risk profile, characterised by low profitability and high working capital-intensive nature of the trading business and moderate debt coverage metrics. The operating margins are projected to remain thin in the range of 1-1.2% in FY2024 and FY2025 (0.7% in FY2023) and interest coverage is likely to remain moderate in FY2024 and FY2025. The utilisation of working capital lines remains volatile, peaking during the festive season, sales events or any launches. Further, the TOL/TNW is high to fund the elevated inventory levels due to significant stocking requirement across product categories. However, the inventory is largely moving and in case of slow-moving goods, the brands and the entity have an arrangement for dilution of stock through discounts, thereby mitigating write-offs. The high inventory holding period is supported by working capital limits and credit period extended from the brands. Consequently, the TOL/TNW is likely to remain elevated in FY2024 and FY2025. However, the ability to secure timely incremental working capital to support growth requirements going forward is a key monitorable. While RKWIPL has close to two years of track record of operations in the FMCG category, the Group has a track record of more than nine years of operations as an online retailer through Amazon and Flipkart. The ratings are further constrained by the intense competition faced by RKWIPL from other sellers on the online marketplace, and from offline retailers. The online retail industry remains exposed to regulatory interventions, which can alter the competitive landscape significantly and remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA's expectation on sustained improvement in scale of operations, supported by established relationships with multiple brands and the RK Group's experience in the online retailing segment and maintain working capital intensity.

Key rating drivers and their description

Credit strengths

Healthy growth in scale of operations expected in FY2024 and brand diversification – ICRA estimates growth in the operating income (OI) by 23-25% in FY2024 (PY: Rs. 4,400 crore) and by 10-12% in FY2025, backed by healthy demand of FMCG on e-commerce platforms due to increasing digital penetration. The company has established relationships with brands such as P&G, HUL, Reckitt Benckiser, Loreal, among others. It is also catering extensively to oral care, personal care, healthcare, bath and shower, beauty tools and accessories and other FMCG goods. RKWIPL has working capital limits of Rs. 500 crore and Rs. 49 crore (OD against FD) as of December 2023 to support these operations.

Extensive experience of promoters – While RKWIPL has close to two years of track record of operations in the FMCG category, the Group has a track record of more than nine years of operations as an online retailer through Amazon and Flipkart. RKWIPL is a part of the RK Group and given the close managerial linkages, corporate guarantees extended among RK Group entities and RKWIPL's strategic importance to the RK Group, ICRA expects that the Group will be willing to extend timely financial support to RKWIPL, if need arises.

Credit challenges

Thin profitability, high working capital requirements and moderate debt coverage metrics – The ratings are constrained by RKWIPL's modest financial risk profile, characterised by low profitability and high working capital-intensive nature of the trading business and moderate debt coverage metrics. The operating margins are projected to remain thin in the range of 1-1.2% in FY2024 and FY2025 (0.7% in FY2023) and interest coverage is likely to remain moderate in FY2024 and FY2025. The utilisation of the working capital lines remains volatile, peaking during the festive season, sales events or any launches. Further, the TOL/TNW is high to fund the elevated inventory levels due to significant stocking requirement across product categories. However, the inventory is largely moving and in case of slow-moving goods, the brands and the entity have an arrangement for dilution of stock through discounts thereby mitigating write-offs. The high inventory holding period is supported by working capital limits and credit period extended from the brands. Consequently, the TOL/TNW is likely to remain elevated in FY2024 and FY2025. However, the ability to secure timely incremental working capital to support growth requirements going forward, is a key monitorable.

Stiff competition and regulatory risks in e-commerce business – The ratings are further constrained by the intense competition faced by RKWIPL from other sellers on the online marketplace, and from offline retailers. The online retail industry remains exposed to regulatory interventions, which can alter the competitive landscape significantly and remains a key rating monitorable.

Liquidity position: Stretched

RKWPL's liquidity is expected to remain stretched, due to high working capital-intensive nature of operations and increasing scale of business. The average utilisation of the fund-based limits during the last 12 months ending November 2023 was around 78% and during the peak period of Q3 FY2024, even higher, at around 90%. Its free cash and bank balances remained low at Rs. 10.9 crore as on December 31, 2023. Further, securing timely incremental working capital is critical to support growth requirements in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of any significant increase in scale of operations and improvement in working capital cycle, while maintaining profitability resulting in improved debt protection metrics and liquidity position, on a sustained basis.

Negative factors – The pressure on ratings will arise if there is a decline in revenues and profitability or elongation of working capital cycle impacting debt coverage metrics and liquidity position, on a sustained basis. Further, weakening of linkages with the Group or any regulatory change, which would adversely impact the business profile, will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Retail
Parent/Group support	Group support - RK Group ICRA expects the Group to be willing to extend financial support to RKWIPL, should there be a need, given the managerial linkages and strategic importance it holds for the Group
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Incorporated in 2008, RK World Infocom Private Limited began as a distributor for Nokia handsets in July 2003 (through the proprietorship concern of Mr. Ramesh Kumar Shah). Since Q4 FY2022, the company started to operate as on online retailer on Amazon Marketplace, selling FMCG products. RKWIPL will source its products from vendors like P&G, HUL, Reckitt Benckiser, Loreal, Unicharm, Himalaya, J&J, Nivea, etc.

Key financial indicators (audited)

	Audited	
	FY2022	FY2023
Operating income	29.3	4,399.8
PAT	-1.7	6.9
OPBDIT/OI	-10.5%	0.7%
PAT/OI	-5.8%	0.2%
Total outside liabilities/Tangible net worth (times)**	9.8	34.6
Total debt/OPBDIT (times)	-58.1	16.8
Interest coverage (times)	-15.4	1.3

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; **includes unsecured loans of Rs. 40.7 crore in FY2023 (Rs. 3.2 crore in FY2022)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 27, 2024	Mar 31, 2023	-	-
1	**Fund-based – Cash credit**	Long term / short term	200.00	--	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-
2	**Fund-based/Non-fund based working capital facilities**	Long term / short term	300.00	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund based working capital facilities	NA	NA	NA	150.00*	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Fund-based – cash credit	NA	NA	NA	150.00**	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Fund-based/Non-fund based working capital facilities	NA	NA	NA	150.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Fund-based – cash credit				50.00***	[ICRA]BBB-(Stable)/[ICRA]A3

*Source: Company; *includes a combined limits of Rs. 150 crore with sublimits of Working capital loan of Rs. 150.0 crore, guarantee/ bond facility of Rs. 50.0 crore, import controlling limit of Rs. 50.0 crore, standby documentary credit facility of Rs. 50.0 crore and OD of Rs. 60.0 crore; **includes sublimit of WCDL of Rs. 150.0 crore, ***includes sublimit of WCDL of Rs. 50.0 crore*

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

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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