

December 13, 2021 ^(Revised)

Pai International Electronics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	-	48.6	[ICRA]BBB (Stable); reaffirmed
Long term/short term – Fund based	31.0	-	-
Long-term– Fund Based- CC	-	149.5	[ICRA]BBB (Stable); reaffirmed
Short Term - Fund based	-	109.6	[ICRA]A3+; reaffirmed
Long term/ Short Term- Unallocated	-	09.3	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	31.0	317.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA ratings factor in the established market presence of Pai International Electronics Limited (PAI) in South India aided by established track record on the back of the vast experience of the promoters in the consumer durables retailing industry and strong brand pull it enjoys. PAI's strong market position, favourable economies of scale, healthy bargaining power with counterparties and efficient marketing & service network lend support to its business prospects. The company's financial profile is characterised by moderate leverage and coverage indicators (gearing of 1.4 times and interest coverage ratio of 1.9 times as of March 31, 2021).

The ratings, however, are constrained by the low operating margins inherent to the retail nature of the operations, the high working capital requirements of the business, and the vulnerability of earnings to the fragmented and competitive nature of the domestic consumer durables retail market. The ratings also takes into consideration geographic concentration risk with ~70% of the company's revenues derived from a single market (Karnataka). Going forward the plans for opening new stores are likely to have an impact on the profitability and debt indicators in the near term, given the gestation period for new stores, though the same is likely to improve in medium term.

The Stable outlook reflects ICRA's expectation that PAI will benefit from the extensive experience of its promoters and established brand presence in the market in South India.

Key rating drivers and their description

Credit strengths

Significant experience of promoters with presence in retail industry for over 20 years – The promoters have more than 20 years of experience in the consumer durables retailing (electronics and electricals) industry. Incorporated in 2000, PAI has a strong presence in Karnataka, Andhra Pradesh and Telangana, leading to an established market position in the region. It is one of the largest retailers in South India with 222 stores spread across three states. The company enjoys working relationships with all marquee names in the mobile consumer durables retail industry, aiding its sales growth

Established tie-ups with major consumer durables OEMs – PAI has established relationships with major consumer durables original equipment manufacturers (OEMs) such as Samsung, LG Electronics, VIVO, Sony, Voltas, Whirlpool, etc., which have been contributing to the majority of its sales over the past few years. This, coupled with the long-term positive demand for the consumer durables industry, is likely to support the company's revenue growth prospects going forward.

Strong brand name in Karnataka, Andhra Pradesh and Telangana – PAI commenced operations in 2000 as a home appliance retailer and has been adding stores every year, primarily in the South Indian retail market. With the company covering all major products in the consumer durables and electronics space, supported by strong tie-ups with major players in the industry, the brand (PAI) has a well-established presence in the region with 222 stores as on September 31, 2021.

Credit challenges

High geographical concentration with entire revenues generated from three states – PAI derived ~60-70% of its revenues from Karnataka in FY2021, followed by Telangana and Andhra Pradesh, exposing its business profile to region-specific risks and uncertainties. However, the company has expanded its presence in Telangana and Andhra Pradesh over the past 2-3 years.

Inherently low margins and intense competition – Inherent to the industry, PAI's margins are low due to limited value addition and competition from e-commerce players and brick & mortar players like Adishwar India Limited, Girias India, Reliance Digital, Croma, Sangeetha Mobiles Private Limited, Poorvika Mobiles Private Limited, etc. With the changing economic and demographic landscape of the country, intense competition is being witnessed in the consumer durables industry with demand emanating especially from tier II and III cities.

Intense competition across product categories limits pricing flexibility and margins – The mobile retail industry is characterised by stiff competition due to its fragmented nature with a considerable volume share enjoyed by many small unorganised players, continuous expansion undertaken by a few large regional players, and presence of e-commerce players. However, with a strong brand presence and focussed marketing initiatives, PIEL has been able to maintain a reasonable market position leading to stable volume and earnings over the years, despite limited pricing flexibility.

Liquidity position: Adequate

PAI's liquidity position is adequate with its increasing fund flow from operations over the years given the increase in scale of operation. Working capital utilization was within limits for 12 month period ending November 2020 to October 2021 with average utilization of 73%. Further the liquidity is supported by operational cashflows of Rs. 19.5 crore while cash and bank balances as of March 31, 2021 was Rs. 47.7 crore

Rating sensitivities

Positive factors – ICRA could upgrade the ratings on sustained growth in revenue and profitability and an improvement in the liquidity profile. Specific credit metrics that could lead to an upward revision in the ratings include an interest coverage ratio of more than 4.0 times.

Negative factors – Pressure on the ratings could arise from a sharp deterioration in the profitability, credit metrics or liquidity profile. Specific credit metrics that could lead to a downward revision in the ratings include interest cover of < 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for retail Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the issuer

About the company

Mr. Rajkumar Pai started PAI in 2000 as a proprietary concern for dealing with home appliances with one store in Indira Nagar, Bengaluru (Karnataka). In 2005 the proprietary concern was converted into a limited company, PAI International Electronics Limited. The company sells consumer electronics, home appliances, mobiles, IT and furniture products.

PAI deals in all kinds of home and kitchen appliances like washing machines, refrigerators, air conditioners, air coolers, microwave ovens, chimneys, mobile phones, home theatres, vacuum cleaners, wet grinders and furniture. It has a presence in three states, namely Karnataka, Telangana, and Andhra Pradesh.

The company deals with major multinational and domestic companies and distributes various products of Godrej, LG Electronics India Private Limited, Sony India Private Limited, IFB Industries Limited, Samsung India Electronics Private Limited, Voltas Limited, Whirlpool of India Ltd and other reputed distributors. As on September 30, 2021, the company had 222 outlets across Karnataka, Telangana, and Andhra Pradesh.

Key financial indicators

PIEL	FY2020	FY2021*
Operating Income (Rs. crore)	1,390.0	1435.2
PAT (Rs. crore)	23.6	12.7
OPBDIT/OI (%)	4.5%	3.4%
PAT/OI (%)	1.7%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.5
Total Debt/OPBDIT (times)	2.8	4.4
Interest Coverage (times)	2.5	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Dec 13, 2021	Mar 23, 2021	Sep 11, 2020	Sep 12, 2019	Jun 28, 2018
1	Fund based	Long term /short term	31.0	0.0	-	[ICRA]BBB (Stable)/ [ICRA]A3+	NA	NA	NA
2	Fixed Deposit	Medium Term	50.0	0.0	NA	NA	MA- (Stable); withdrawn	MA- (Stable)	MA- (Stable)
3.	Fund based - TL	Long term	48.6	47.7	[ICRA]BBB (Stable)	NA	NA	NA	NA
4.	Fund based	Short term	109.6	0.0	[ICRA]A3+	NA	NA	NA	NA
5	Cash Credit	Long term	149.5	0.0	[ICRA]BBB (Stable)	NA	NA	NA	NA
6	Unallocated	Long term/ short term	9.3	0.0	[ICRA]BBB (Stable)/ [ICRA]A3+	NA	NA	NA	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – CC	Simple
Fund based - TL	Simple
Fund based – Short term	Simple
Unallocated	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
Citi Bank	Cash Credit	NA	NA	NA	49.5	[ICRA]BBB (Stable)
HDFC Bank	Cash Credit	NA	NA	NA	69.0	[ICRA]BBB (Stable)
State Bank of India	Cash Credit	NA	NA	NA	31.0	[ICRA]BBB (Stable)
Citi Bank	Term Loan	2021	NA	2026	10.5	[ICRA]BBB (Stable)
HDFC Bank	Term Loan	2021	NA	2026	10.0	[ICRA]BBB (Stable)
HDFC Bank	Term Loan	2020	NA	2027	6.8	[ICRA]BBB (Stable)
Bajaj Finance Limited	Term Loan	2020	NA	2027	21.3	[ICRA]BBB (Stable)
IDFC Bank	Fund based	NA	NA	NA	25.0	[ICRA]A3+
State Bank of India	Fund Based	NA	NA	NA	84.6	[ICRA]A3+
NA	Unallocated	NA	NA	NA	9.3	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

NA

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

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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.

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Branches



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