February 29, 2024

Supertron Electronics Private Limited: Ratings reaffirmed, outlook revised to Negative from Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	340.00	380.00	[ICRA]A+, reaffirmed/ assigned; outlook revised to Negative from Stable
Long-term Fund based – Term Loan	40.00	40.00	[ICRA]A+, reaffirmed; outlook revised to Negative from Stable
Short-term Non-Fund-based – Working Capital Facilities	-	336.00	[ICRA]A1, reaffirmed/ assigned
Short-term Non-Fund-based – Letter of Credit	209.00	0.00	-
Short-term Non-Fund-based – Bank Guarantee	73.00	0.00	-
Short-term Non-Fund-based – Forward Contract	4.00	0.00	-
Short-term Non-Fund-based – Interchangeable$	(35.00)	(153.00)	[ICRA]A1, reaffirmed/ assigned
Long-term / Short-term – Unallocated Limits	-	190.00	[ICRA]A+/ [ICRA]A1, reaffirmed/ assigned; outlook revised to Negative from Stable
Total	**666.00**	**946.00**	

**Instrument details are provided in Annexure-I*

$ Sub-limit of the non-fund-based working capital facilities

Rationale

The revision in the long-term rating outlook of Supertron Electronics Private Limited (SEPL) to Negative from Stable considers a sharp deterioration in the interest coverage in FY2023 on a YoY basis owing to rising working capital requirement and higher interest rates, resulting in an increased borrowing cost. The same is likely to remain constrained in the near term unless there is a substantial improvement in SEPL's operating performance.

Meanwhile, the ratings consider the established track record of the company in the IT hardware distribution business, which along with numerous tie-ups with leading IT hardware manufacturers strengthens its operating profile. The company has a strong distribution network, supported by a wide base of channel partners, catering to consumer and enterprise segments, in more than 950 cities and towns, enabling it to have a diversified geographical presence across the country. The company has ventured into mobility products distribution business from FY2024. This, along with favourable demand for IT hardware products would lead to a healthy revenue growth for the company in FY2024 on a YoY basis.

The ratings, however, factor in the intensely competitive nature of the IT hardware distribution business, which limits pricing flexibility and the scope of margin expansion. SEPL has a relatively concentrated vendor base, with product sales of the top five vendors cumulatively contributing around 79% to the top line in FY2023. Further, its revenues are susceptible to the performance of its key principals with around 31% of its revenue in FY2023 derived from distributing products of a single OEM. Nonetheless, ICRA notes that the strong market position of the vendors mitigates the concentration risk to an extent. As a sizeable portion of the contracts with the top vendors are exclusive in nature, the vendors are also dependent on SEPL to increase their own market share in the country, reducing the risk further. SEPL is also dependent on imports for a sizeable share of its overall procurement and is thus exposed to forex risks as well. However, the company has been able to mitigate such risks to an extent owing to partial hedging through forward covers as well as price protection and discounts offered by the vendors, which also protect the company from the risks of inventory obsolescence.

Key rating drivers and their description

Credit strengths

Established player in the IT hardware distribution business, exclusive tie-ups with leading product manufacturers – SEPL is an established player in the IT hardware distribution business having tie-ups with leading hardware OEMs like Dell, Acer, Seagate, Lenovo, and Samsung, among others. SEPL's product offerings include desktops, laptops, monitors, hard drives, flash drives, printers, servers, and tablets, besides other IT hardware products. A sizeable share of the company's top line is contributed by the sale of products through exclusive distributorship tie-ups, ensuring a relatively secure revenue stream. In the current fiscal, the company has started supplying mobility products to various Government authorities, women/ student empowerment scheme, under sub-contracting arrangements.

Wide distribution network with low customer concentration risk – The company has an established customer base of over 12,000 dealers in more than 950 cities and towns. The customer concentration has been low with the top-10 customers accounting for only around 18% of total sales in FY2023 (18% in FY2022). As growth prospects are higher in tier-II and tier-III cities, SEPL has an extensive reach in these areas through a strong distributor network and is planning to increase its presence in these markets further.

Healthy top line growth likely in the current fiscal – The turnover of SEPL witnessed a steady growth during FY2018-FY2022 on the back of its wide distribution network, new business acquisitions via new vendor tie-ups and increased business from its existing channel partners. However, loss of business of Dell in India led to a decline in the top line of the company by around 7% in FY2023 over the previous fiscal. However, ICRA notes that the company has forayed into a new business segment for distribution of mobility products to various Government authorities under women/ student empowerment scheme via sub-contracting arrangements. This had helped SEPL garner revenue in the current fiscal. The turnover of the company rose to around Rs. 3,204 crore in H1 FY2024 vis-à-vis Rs. 2,685 crore in H1 FY2023, registering a YoY growth of around 19%. The demand for IT hardware products is likely to remain favourable in the near-to-medium term. In view of the same, along with venturing into mobility products distribution business, ICRA expects the company to register a revenue growth of around 12% in FY2024 over the last fiscal.

Diversified geographical presence – SEPL has been able to establish a pan-India footprint through a wide network of channel partners and branch offices. In FY2023, the southern region was the largest revenue contributor, contributing ~35% to the company's top line, followed by the northern and western regions with revenue share of ~29% and ~25%, respectively. Eastern India contributed the least to the top line across the years.

Credit challenges

Intense competition from well-established distribution companies limits pricing flexibility, exerting pressure on margins – The operating profit margin (OPM) of the company is inherently low due to the nature of the industry in which it operates, which is characterised by intense competition among players in a high volume, low margin business. Moreover, competition from other well-established IT hardware distribution companies restricts its pricing flexibility. Limited pricing flexibility, coupled with the nature of the business, keeps its margins thin. Accordingly, the OPM continued to remain in the range of 2-3% over the past few years. The net margin was impacted by high interest costs and stood low at 1.6% in FY2023. The OPM is estimated to decline on the back of competitive pricing pressure and increased overheads, and is likely to remain at 2.6-2.7% in FY2024. The net margin would continue to remain low and in the range of 1.4-1.5% in the current fiscal. The RoCE, however, would likely to remain at a comfortable level of 15-16%, going forward.

Dependence on performance of the principals – Sales of products from Dell, Lenovo, Acer, Seagate, and Samsung, SEPL's largest suppliers, account for the major portion of the company's revenues. Products of these five vendors accounted for around 79% (83% in FY2022) of SEPL's revenue in FY2023, among which Dell alone contributed 31%. This exposes the company to the vendor concentration risk. Moreover, ICRA notes that loss of business of Dell in India led to a decline in the top line of the company in FY2023 over the previous fiscal. Thus, the performance of the principal remains critical for the business.

Nevertheless, the company has forayed into new business segment for distribution of mobility products to various Government authorities under the sub-contracting arrangement. Also, addition of new vendors in the current year mitigates such concentration risk to a certain extent.

High working capital intensive nature of operations; weakening of interest cover metric – The company has high stocking requirements and has to extend large credit to its dealers/ channel partners. This exerts pressure on its liquidity position. The company's working capital intensity of operations witnessed a steady increase over the past few years, leading to an increase in the overall working capital borrowings. Moreover, the company has to extend sizeable non-fund based facilities to avail credit from its OEMs. ICRA notes that increased borrowing costs led to a sharp deterioration in the interest coverage to 4.2 times in FY2023 from 6.9 times in FY2022. The same is likely to remain constrained in the near term at least, unless there is a substantial improvement in SEPL's operating performance.

Exposure to forex risks – The company remains exposed to adverse movement in forex rates as a significant portion of goods is imported and no export sales take place. Such risks are, however, mitigated by the partial hedging policy followed by the company as well as the price protection offered by SEPL's vendors.

Liquidity position: Adequate

The company is likely to generate positive cash flow from operations in the near-to-medium term. However, the working capital requirement would continue to remain high, which is likely to be funded through creditors as well as working capital borrowings. The company has limited debt repayment obligations compared to its likely cash accruals from the business. SEPL's average utilisation of the working capital limits stood at around 82% during the last 15 months ended in December 2023. In view of surplus cash/ bank balance, undrawn working capital facilities and absence of any major planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate, going forward. The company is also in the process of tying up with additional working capital facilities with the banks, which if sanctioned, would add to its liquidity buffer.

Rating sensitivities

Positive factors – Given the Negative outlook, an upgrade in the ratings looks unlikely. However, the outlook can be revised to Stable if the company can improve its working capital cycle along with an improvement in its credit metrics.

Negative factors – Pressure on SEPL's ratings may arise if an elongation in the working capital cycle adversely impacts the liquidity position of the company. Any reduction in the absolute profit, leading to an interest cover below 5.0 times on a sustained basis, could lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/ Group support	Not Applicable
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the entity

About the company

Incorporated in 1993, Supertron Electronics Private Limited (SEPL) is in the business of IT products distribution and marketing of a number of IT hardware products, including desktops, laptops, monitors, external hard drives, flash drives, printers and servers, among others. A sizeable portion of its business comes from the sale of a range of products from Dell, Acer, Lenovo, Samsung and Seagate. SEPL has a pan-India presence and has a national exclusive distribution right for many of its products.

Key financial indicators

SEPL, Standalone	FY2022	FY2023	H1 FY2024*
Operating income	5,585.1	5,181.5	3,203.7
PAT	102.3	84.3	45.4
OPBDIT/OI	2.9%	3.0%	2.4%
PAT/OI	1.8%	1.6%	1.4%
Total outside liabilities/Tangible net worth (times)	3.4	3.0	3.4
Total debt/OPBDIT (times)	2.7	3.1	3.7
Interest coverage (times)	6.9	4.2	4.0

*Source: Supertron Electronics Private Limited, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore, *Provisional*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 29, 2024	Nov 30, 2022	Dec 20, 2021	Sep 11, 2020
1	**Fund-based – Working Capital Facilities**	Long Term	380.00	309.87	**[ICRA]A+ (Negative)**	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A- (Positive)
2	**Fund based – Term Loan**	Long Term	40.00	29.17	**[ICRA]A+ (Negative)**	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-
3	**Non-fund based – Working Capital Facilities**	Short Term	336.00	-	**[ICRA]A1**	-	[ICRA]A1	[ICRA]A2+
4	**Non-fund based – Interchangeable$**	Short Term	(153.00)	-	**[ICRA]A1**	[ICRA]A1	-	-
5	**Non-fund based – Letter of Credit**	Short-term	-	-	-	[ICRA]A1	-	-
6	**Non-fund based – Bank Guarantee**	Short-term	-	-	-	[ICRA]A1	-	-
7	**Non-fund based – Forward Contract**	Short-term	-	-	-	[ICRA]A1	-	-
8	**Unallocated Limits**	Long Term/ Short Term	190.00	NA	**[ICRA]A+ (Negative)/ [ICRA]A1**	-	[ICRA]A (Positive)/ [ICRA]A1	-

$ Sub-limit of the non-fund-based working capital facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – Working Capital Facilities	Simple
Long term fund based – Term Loans	Simple
Short-term Non-Fund-based – Working Capital Facilities	Very Simple
Short-term Non- Fund-based – Interchangeable	Very Simple
Long-term/ Short-term – Unallocated Limits	Not applicable

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	Cash Credit 1	NA	NA	NA	25.00	[ICRA]A+ (Negative)
NA	Cash Credit 2	NA	NA	NA	35.00	[ICRA]A+ (Negative)
NA	Cash Credit 3	NA	NA	NA	30.00	[ICRA]A+ (Negative)
NA	Cash Credit 4	NA	NA	NA	10.00	[ICRA]A+ (Negative)
NA	Cash Credit 5	NA	NA	NA	23.00	[ICRA]A+ (Negative)
NA	Cash Credit 6	NA	NA	NA	60.00	[ICRA]A+ (Negative)
NA	Cash Credit 7	NA	NA	NA	2.00	[ICRA]A+ (Negative)
NA	Cash Credit 8	NA	NA	NA	20.00	[ICRA]A+ (Negative)
NA	Channel Financing	NA	NA	NA	175.00	[ICRA]A+ (Negative)
NA	Term Loan (GECL)	FY2021	NA	FY2026	40.00	[ICRA]A+ (Negative)
NA	Letter of Credit 1	NA	NA	NA	35.00	[ICRA]A1
NA	Letter of Credit 2	NA	NA	NA	25.00	[ICRA]A1
NA	Letter of Credit 3	NA	NA	NA	60.00	[ICRA]A1
NA	Letter of Credit 4	NA	NA	NA	25.00	[ICRA]A1
NA	Letter of Credit 5	NA	NA	NA	42.00	[ICRA]A1
NA	Letter of Credit 6	NA	NA	NA	26.00	[ICRA]A1
NA	Letter of Credit 7[$]	NA	NA	NA	(28.00)	[ICRA]A1
NA	Letter of Credit 8	NA	NA	NA	50.00	[ICRA]A1
NA	Bank Guarantee 1	NA	NA	NA	10.00	[ICRA]A1
NA	Bank Guarantee 2	NA	NA	NA	10.00	[ICRA]A1
NA	Bank Guarantee 3[$]	NA	NA	NA	(40.00)	[ICRA]A1
NA	Bank Guarantee 4[$]	NA	NA	NA	(25.00)	[ICRA]A1
NA	Bank Guarantee 5[$]	NA	NA	NA	(10.00)	[ICRA]A1
NA	Bank Guarantee 6	NA	NA	NA	21.00	[ICRA]A1
NA	Bank Guarantee 7	NA	NA	NA	28.00	[ICRA]A1
NA	Bank Guarantee 8[$]	NA	NA	NA	(50.00)	[ICRA]A1
NA	Forward Contract/ Derivative 1	NA	NA	NA	1.00	[ICRA]A1
NA	Forward Contract/ Derivative 2	NA	NA	NA	2.00	[ICRA]A1
NA	Forward Contract/ Derivative 3	NA	NA	NA	1.00	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	190.00	[ICRA]A+ (Negative)/ [ICRA]A1

Source: Supertron Electronics Private Limited

$ Sub-limit of the non-fund-based working capital facilities

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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