

RATING RATIONALE

30 July, 2020

Salora International Limited

Brickwork Ratings downgrades the ratings for the Long Term and reaffirms the short term ratings for Bank Loan Facilities of Rs.55.50 crs. of Salora International Limited,

Particulars:

Facility**	Previous Amount (₹ Cr)	Present Amount Rated (₹ Cr)	Tenure	Previous Rating (Mar, 2019)	Rating* Assigned
Fund Based	59.40	47.50	Long Term	BWR BB Stable	BWR BB - Stable [Downgrade]
Non-fund Based	15.00	8.00	Short Term	BWR A4	BWR A4 [Reaffirmation]
Total	74.40	55.50	INR Fifty Five Crores and fifty lacs only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of facilities given in Annexure I.

RATING ACTION / OUTLOOK

BWR has downgraded the long term rating to **BWR BB- (stable)** and reaffirmed the short term rating of **BWR A4**. The rating has been downgraded due to deterioration of the financial risk profile of the company.

The rating draws strength from more than 3 decades of extensive experience of the promoter, Mr. Gopal Sitaram Jiwarajka and an established long track record of the company for more than 5 decades. The rating however is constrained due to poor profit margins, weak debt protection metrics, presence in highly competitive and price sensitive industry and the continuous risk of technological obsolescence.

For assigning the rating, BWR has relied upon the last 3 years of Audited Financials till FY20 and projections of FY21 & FY22, publicly available information and clarification provided by management.

KEY RATING DRIVERS

Rating Strength:

- **Experienced promoters and Long track record of operations:** The company was established in 1968. The company is being run by the second and third generation of Jiwarajka family. Mr. G S Jiwarajka is the Managing Director and has more than 3 decades of industry experience. The company got listed on stock exchange in 1993 and is listed on both NSE and BSE.
- **Diversified revenue streams :** Company's revenues are diversified into consumer electronics products & components, mobiles phones and wind power.

Rating Weaknesses:

- **Declining Reserves owing to mounting losses and weak Debt protection metrics :-** Continuously for more than last 3 years, the company has registered a PAT loss, the loss for FY20 stood at - Rs. 13.54 Crs with an ISCR of -0.49x and a DSCR of -0.54x in FY20.
- **High Competition and Very thin Margins :** The company operates in a highly competitive and price sensitive industry. There is a presence of numerous players from organised global brands to unorganised local manufacturers which results in very thin profit margins.
- **Risk of technological obsolescence :** The electronic products industry is characterised by continued product and process innovation and rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades to sustain competitive advantage.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA : BWR has assessed the company on a standalone basis. Please refer to the applicable criteria at the end.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, if the company's Scale of Operations , Net profit , EBITDA improves as compared to the present level.

Negative: BWR may revise the ratings downwards, if the company's scale of Operations , Cash flow from operations , Net profit and EBITDA margins deteriorates .

Liquidity Analysis (Stretched) :- The company has had a negative cash accrual continuously for the last 3 years. However, there aren't any major committed repayment obligations. But, owing to year after year negative cash accruals, almost fully utilized credit limits and a weak current ratio of 1.02x, the liquidity of the company stands stretched.

About the Company:-

Salora International Limited, part of Jiwarajka Group, was established in 1968 and is engaged in trading and manufacturing of mobile handsets & televisions. The company used to operate in two primary segments viz Consumer Electronics Division (CED; manufacturing / assembly of LED TVs/CRT TVs and its own components under own brand names “Salora” and “Arya”) & wind energy segment. However currently the company is focusing on manufacturing of consumer electronics and trading through E-commerce. The company is being run by Mr. G S Jiwarajka, the Managing Director and having around 17 years of experience in the industry. Its manufacturing plant is situated in Noida, Uttar Pradesh. It is a public listed company since 1993 and is now listed on both BSE and NSE.

Key Financial indicators

Key Parameters	Units	FY 19	FY 20
Result Type		Audited	Audited
Operating Income	Rs in Crs	175.91	168.79
EBITDA	Rs in Crs	1.46	-3.62
Net Profit	Rs in Crs	-5.21	-13.54
Tangible Net worth	Rs in Crs	65.93	54.90
Total Debt/Tangible Net worth	Times	1.03	1.18
Current Ratio	Times	1.17	1.02

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED -There are no Key covenants

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY - N.A.

RATING HISTORY FOR THE LAST 3 YEARS(INCLUDING WITHDRAWN/SUSPENDED)

SL No	Instrument /Facility	Current Rating (July, 2020)				Rs. in Crs.				
		Type (Long Term / Short Term)	Amount (₹ Crs)	Rating	1 March, 2019	2018	2017			
1	Bank Loan	FB	Long Term	47.50	BWR BB - Stable [Downgrade]	FB	59.40	BWR BB Stable	-	--
2	Bank Loan	NFB	Short Term	8.00	BWR A4 [Reaffirmation]	NFB	15.00	BWR A4	-	---
		Total		55.50	INR Fifty Five Crores and Fifty lacs only					

***Rating was moved to the Rating Not reviewed category on 02 March, 2020.**

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information , visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

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Salora International Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1)	SBI	Cash Credit	25.00		25.00
2)	HDFC	Cash Credit	12.00	-	12.00
		LC/BG	-	6.50	6.50
3)	Canara Bank	Cash Credit	10.50	-	10.50
		LC/BG	-	1.50	1.50
Total			47.50	8.00	55.50

Total INR Fifty Five Crores and fifty lacs only

Additional information is available at www.brickworkratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Brickwork Ratings has been compensated for the provision of the ratings.

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