December 30, 2022

Rocket Kommerce LLP: 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/Non fund based working capital facilities	520.00	520.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**520.00**	**520.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Rocket Kommerce LLP, along with other group companies – Valuecart Private Limited (Valuecart), Westbury Holdings Pvt Ltd (Westbury), Wishery Online Pvt Ltd (Wishery), RK WorldInfocom Pvt Ltd (RK World), Rocket Kars LLP, collectively referred to as RKL – as they operate in similar lines of businesses. These entities have strong managerial and financial linkages along with fungibility of funds, facilitated by group NBFC entity, Kalandri Capital Private Limited.

The rating reaffirmation factors in RKL's 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[1]/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, Loreal 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.

[1] PBDIT=OPBDITA + non-operating income

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.

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, Loreal 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	Corporate Credit Rating Methodology Rating Approach - Consolidation Rating Methodology for Entities in the Retail Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RKLLP and group companies as mentioned in Annexure-2

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 Pvt Ltd 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 WorldInfocom 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.

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			Current rating (FY2023)		Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					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]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 Pvt Ltd	-	Full Consolidation
Westbury Holdings Pvt Ltd	-	Full Consolidation
Valuecart Private Limited	-	Full Consolidation
RK Fabrics India Pvt Ltd	-	Full Consolidation
RK WorldInfocom Pvt Ltd	-	Full Consolidation
Rocket Kars LLP	-	Full Consolidation

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 80 0800 4343
anupama.reddy@icraindia.com

Kapil Banga
+91 124 4545391
kapil.banga@icraindia.com

Sonam Kumari Agarwal
+91 80 4332 6400
sonam.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches