



B U S I N E S S P L A N · I N D I A

Electronic-Components Distribution

Traceable components supply - franchise status stated per line

ELECTRONICS

AISEVAK.IN · BY ABL DIGITAL TECHNOLOGIES

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This document is confidential and prepared for planning purposes. All financial figures are illustrative model assumptions for an Indian MSME context and must be validated against live quotes, local rates and professional advice before any investment or borrowing decision.

1. Executive Summary

This plan sets out an **Electronic-Components Distribution Business** in India — a stocking distributor supplying semiconductors, passives, connectors, electromechanical parts and modules to contract manufacturers, OEM design teams, repair trades and R&D buyers, from a temperature- and humidity-controlled warehouse with kitting, reeling and traceability services.

The electronics vertical's conventions are set in the consumer-electronics-store anchor and cross-referenced rather than re-derived: **electronics loses value while it sits, so the ageing report is a valuation document; GMROI is the trading metric and is reported by decile; and ROCE belongs beside net margin.** The EMS plan asked a question this business is the answer to — it required authorised sourcing with traceability to the manufacturer, and this is the party expected to provide it. What is specific here is that the trade uses one word for two entirely different relationships.

□ **FRANCHISED VERSUS INDEPENDENT — AND BOTH ARE CALLED "DISTRIBUTOR".** A franchised distributor holds a direct contract with the component manufacturer, receives stock from the factory, and can trace a reel back through the supply chain to the fab. An independent distributor or broker buys on the open market — from surplus, from other traders, from unwound production — with no such chain and frequently no knowledge of where the part was before last week. Both print similar websites, quote the same manufacturer part numbers, issue the same-looking invoices and call themselves distributors, and the buyer cannot tell them apart. The EMS plan's counterfeit exposure exists precisely because this distinction is invisible at the point of purchase. So this plan states franchise status per line on every quotation and invoice — from nothing to 100% — retains full lot traceability with manufacturer date codes, and where an open-market purchase is unavoidable says so on the document and subjects the lot to independent authenticity inspection, reporting 41 counterfeit or re-marked lots detected and rejected in Year 3. The general rule: where one word covers two materially different relationships, the honest operator discloses which one he is on every document, not on request.

□ **AND THE SHORTAGE IS WHEN INTEGRITY IS TESTED.** During an allocation shortage, component prices multiply, quoted lead times reach a year, and the open market fills with re-marked, recycled and salvaged parts. The distributor who "always has stock" during a shortage is precisely the one to question — and the margin available on a shortage part can exceed 100% against 5-12% on a franchised line, which is why the temptation is structural rather than occasional. This plan reports franchised share of shipments separately in shortage and normal conditions — 94% normal against 76% in shortage — and discloses margin by channel rather than blended, because a distributor whose shortage margin is invisible is not being asked the right question.

□ **The third control is the one nobody runs: MSL, DATE CODE AND FLOOR LIFE.** Moisture-sensitive devices carry a rated MSL level, a dry-pack requirement and a limited floor life once the bag is opened — and a reel stored or shipped wrong will crack internally during reflow at the customer's plant, months later, where it presents as his process problem and is diagnosed as his fault. Dry-pack integrity and MSL handling compliance move from 46% to 100%, median date-code age at shipment falls from 14 months to 5, and EOL stock is never sold without its date code stated.

This plan models an operator requiring **₹7.40 crore** (₹2.60 crore investor + ₹2.80 crore working-capital facility + ₹1.60 crore promoter + ₹40 lakh term loan), moving from **₹34.00 crore revenue and a ₹68 lakh loss** to **₹92.00 crore**

revenue and ₹4.14 crore profit by Year 3 — a 4.5% net margin, 36.2% return on capital, and GMROI of 268% earned by turning capital rather than by widening margin. (Electronic-components distribution — figures illustrative.)

2. Business Description, Vision & Legal Structure

Concept: A components distributor that prints on the invoice which kind of distributor it was on that line.

Vision: To be the supplier a customer's quality auditor can reconstruct a reel from, three years later.

Mission: State franchise status line by line; keep the date code and the lot; inspect anything bought on the open market and say on the document that we did; report the shortage margin separately from the franchised one; honour the dry pack and the floor life; and sell stock before its date code becomes the customer's problem.

Legal structure

- **Private Limited** — recommended, and effectively mandatory. Franchise agreements with component manufacturers, credit facilities against inventory, customs and import documentation, and any institutional capital all require it.
- **Proprietorship or partnership** — the trade's traditional form and the reason much of it cannot be franchised at all: **manufacturers appoint distributors who can be audited, and an operator with no lot records cannot be.**
- **Employed sourcing, quality and sales functions kept separate**, with authenticity inspection reporting to quality — **because the person whose commission depends on filling the order cannot be the person who decides the lot is genuine.**

Regulatory anchor: a business whose compliance exposure runs through customs, product liability and contract simultaneously. **The first is import: most components are imported, so correct HSN classification, customs valuation, BIS registration where the component class requires it, and country-of-origin declarations are continuous obligations, and an under-declared consignment is a customs offence rather than a commercial shortcut. The second is representation: quoting a manufacturer part number is a specification claim, and supplying a part that is not what the number says reaches the Consumer Protection Act's unfair-trade-practice provisions and the Sale of Goods Act's implied conditions as to description and merchantability — a counterfeit sold in good faith is still a breach. The third is downstream liability: a counterfeit or degraded component that fails inside a customer's product can carry consequential loss far beyond the value of the reel, which is why the traceability record is a legal document and not a warehouse convenience.** Then: GST with correct treatment of high-seas and bonded stock; e-waste and EPR obligations on scrapped and rejected material; ESD-safe handling as a contractual requirement in most customer quality agreements; and EPF/ESI and POSH across the workforce.

3. Promoter & Ownership

Led by a promoter with components distribution, EMS purchasing or semiconductor sales background. Three competences decide outcomes. *Line-card judgement*, because a distributor is the manufacturers it represents and a franchise once lost is rarely regained. *Inventory nerve*, since the business is bought stock against forecast demand, and the two ways to fail are holding parts nobody wants and being empty when the order lands. And *the discipline to refuse a shortage sale* — where a customer is desperate, a broker has stock, the margin is extraordinary and the provenance is unknowable, and the correct answer is no. Ownership, equity & investor terms are editable inputs; **authenticity inspection and quality report to the promoter and quality, never to sales, whose fill rate they constrain.**

4. Market Analysis — India

Indian components distribution is expanding with domestic electronics manufacturing, and is structurally short of distributors whom a quality auditor can accept.

Demand drivers

- **Electronics manufacturing growth under PLI and domestic value-addition targets**, which converts assembly imports into component demand at exactly this layer.
- **A growing EMS base** whose customers impose quality agreements the EMS must push up to its suppliers — the direct source of demand for traceable sourcing.
- **Design and R&D activity**, which buys small quantities of many part numbers and values availability far above price.
- **Repair, service and after-market trades**, a large, fragmented and chronically under-served buyer group.
- **Shortage memory** — the recent allocation cycles taught buyers that supply security has a value, which is the honest commercial argument for a stocking distributor.

Market sizing (illustrative framing)

Layer	Definition	Indicative scale
TAM	Component purchases across the served industrial region	Very large; dominated by direct-to-manufacturer volume
SAM	Buyers who require traceable, auditable supply below direct-factory volume	Bounded by LINE CARD and CREDIT, not demand
SOM (Yr 1-3)	Accounts served across EMS, OEM, design and trade	₹34cr → ₹92cr; franchised share 94% normal / 76% shortage

The demand structure is unusual and shapes everything downstream: a very small number of part numbers carry most of the value, and a very large number carry most of the relationship. A customer who cannot get a ₹4 connector will move his ₹40 lakh order to whoever has it, which means the low-value long tail is not a drag on the business but the reason the business is called. The commercial error is to read the ageing report as though every slow part were a mistake — some slow stock is inventory and some is service, and the distributor who cannot tell them apart will cut exactly the wrong lines.

Customer segments and what each actually buys

Segment	Buys on	Yr 3 revenue share
Contract manufacturers (EMS)	Traceability, schedule adherence, kitting, credit — and a quality agreement they must be able to satisfy upstream	44%
OEM production buyers	Price, continuity of supply, approved-vendor status	23%
Design & R&D teams	Availability of small quantities, technical support, samples — and they specify what production later buys	11%
Repair, service & after-market	Immediate availability, small lots, no minimum order	14%

Institutional, defence & research	Documentation, origin declarations, tender compliance	8%
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The R&D segment is 11% of revenue and a much larger share of the business's future, which is the reason it is served at all. A design engineer who obtains a sample and technical answer in a day specifies that manufacturer's part into a product that will then be purchased in volume for five or eight years — by the production buyer in the row above, who has no discretion over the part number and only over the supplier. A distributor who reads the ageing report without understanding this will cut the sample business first, because on the numbers it is the worst business in the house.

Constraints

- **Working capital is the binding constraint** — stock is bought against forecast, often prepaid to the manufacturer, and sold on 45–60 day terms.
- **Franchise appointments are hard to obtain** and require demonstrated stocking capability, systems and territory coverage.
- **Price transparency** — global catalogue distributors publish prices, so a local distributor competes on availability, terms, kitting and local support, not on being cheaper.
- **Obsolescence and technology transition**, which can strand stock without warning.

5. Competition & Position

Competitor type	Strength	Weakness this plan exploits
Global catalogue distributors	Enormous range, published pricing, instant availability	Import duty, freight, lead time on bulk, no local credit or kitting
Large franchised national distributors	Line cards, credit, technical support	Minimum order values that exclude smaller buyers entirely
Independent traders / brokers	Find anything, fast, during shortage	No traceable chain — and rarely say so
Local market shops	Cash sales, immediate, no paperwork	No date codes, no MSL handling, no invoice trail
This plan	Franchise status stated per line; lots traceable; open-market purchases inspected and disclosed	Cannot always be cheapest, and will lose shortage orders it declines to source

The positioning claim is narrow and checkable: not "genuine parts", which every trader in the market also claims and none can prove, but "you will know from the invoice which relationship this line came through, and you will be able to reconstruct the lot in three years". That is a claim a customer's quality auditor can test on any working day by picking a line at random and asking for its history — which is exactly why it is worth making, and why almost nobody makes it.

The commercial cost is stated rather than hidden. Declining open-market stock the sourcing team cannot authenticate costs an estimated ₹1.94 crore of Year-3 revenue at unusually high margin, and disclosing open-market status on the document costs perhaps a fifth of those orders outright, because a buyer under schedule pressure would often rather not have been told. The offsetting return is that this business can hold franchise appointments and pass customer quality audits, and a distributor who cannot do either is competing only on

price against parties with lower costs.

The competitive position is also a defence against the trade's structural drift. A distributor competing purely on price is pushed, quarter by quarter, toward the cheapest source of any given part — and the cheapest source of a part on allocation is always the one asking fewest questions about where it came from. That is not a slippery slope argument; it is arithmetic in a business running 12.4% gross margin, where the difference between winning and losing an order is routinely smaller than the difference between a franchised price and an open-market one. Building the proposition on availability, kitting, credit, technical support and auditability is therefore a commercial choice AND a control: it removes the pressure that makes the wrong sourcing decision look like good business.

6. Franchised, Independent, and the Word That Hides the Difference

The word "distributor" is doing dishonest work in this market, and the dishonesty is mostly passive — nobody lies, and the buyer draws a conclusion the seller declines to correct.

Relationship	What it actually means	What the buyer usually assumes
Franchised / authorised	Direct contract with the manufacturer; stock received from the factory; warranty and traceability supported by the maker	Correct
Independent / open market	Bought from surplus, other traders, unwound production; provenance beyond the last hop typically unknown	Same as above
Mixed house	Franchised on some lines, open market on others, one invoice for both	That the whole invoice is franchised

This plan's control is a document change, not a policy statement, because a policy statement is what every competitor already has. Every quotation and every invoice carries franchise status per line — **FRANCHISED**, or **OPEN MARKET** followed by the inspection reference — moving from nothing to 100% of lines. Full lot traceability with manufacturer date codes is retained for the life of the warranty plus statutory retention, so a failure investigation two years later can identify the lot rather than the invoice. And where an open-market purchase is genuinely unavoidable — a customer's line is stopped, the part is on allocation, and the alternative is that he buys it from someone who will not tell him anything — the lot goes through independent authenticity inspection first: decapsulation or X-ray on a sample, date-code and marking permanency checks, and electrical verification against the datasheet, with 41 counterfeit or re-marked lots detected and rejected in Year 3.

The generalisable rule, which recurs across this library wherever a single term spans materially different arrangements: **WHERE ONE WORD COVERS TWO DIFFERENT RELATIONSHIPS, THE HONEST OPERATOR DISCLOSES WHICH ONE HE IS ON EVERY DOCUMENT, NOT ON REQUEST.** Disclosure on request is not disclosure, because the buyer who does not know the distinction exists does not know there is a question to ask — and the entire commercial value of the ambiguity depends on his not asking. The test of whether a control is real is whether it operates when nobody is looking for it.

What a customer's quality auditor is entitled to ask, and get

- **For any line on any invoice — was this franchised or open market?** Answered from the document itself, without a search.

- **Which lot, and what date code?** Retained for the warranty period plus statutory retention, and available after the salesperson who sold it has left.
- **If open market — who inspected it, by what method, and what did the inspection find?** Including the lots inspected and passed, not only those rejected.
- **What was the MSL status and floor-life position at despatch?** On the despatch document, so it does not depend on this operator being asked.
- **Show me a rejection.** The most revealing question of the set, because a distributor who cannot produce one has either never bought a bad lot or never found one.

These five questions cost nothing to answer if the systems were built to answer them and cannot be answered at all if they were not — which is why the traceability decision is made at incorporation rather than when the first audit is scheduled. Retrofitting lot-level records onto a distributor already trading is, in practice, impossible: the stock on the shelf has no history, and inventing one is worse than admitting there is none.

7. The Shortage, the Date Code and the Reel That Cracks

Two failure modes account for most of the harm this trade does, and both are invisible at the moment of sale.

□ **THE SHORTAGE IS WHEN INTEGRITY IS TESTED.** In an allocation cycle, prices multiply, quoted factory lead times reach a year, and the open market fills with re-marked older parts, recycled devices desoldered from scrapped boards, and salvage sold as new. The distributor who "always has stock" through a shortage is telling the buyer something he should find alarming rather than reassuring. And the incentive is structural: 5-12% on a franchised line against margins that can exceed 100% on a shortage part means the shortage is where a year's profit is decided, which is precisely why a distributor's shortage conduct — not his normal conduct — is the thing worth measuring. So this plan reports franchised share of shipments separately for shortage and normal conditions (94% and 76%), discloses gross margin by channel rather than blended (9.2% franchised, 24.6% open market), and states plainly that the second number is not a skill.

□ **MSL, DATE CODE AND FLOOR LIFE —** the control the trade universally ignores because its failures land elsewhere. Moisture-sensitive devices absorb ambient humidity through their packaging; a device rated MSL 3 has a limited floor life once its dry pack is opened, and a reel stored loose in a humid warehouse or shipped without desiccant will absorb enough moisture that the package cracks internally during reflow. The customer sees intermittent failures weeks later at his own plant, concludes his oven profile is wrong, and never traces it here — which is exactly why the discipline decays everywhere. This plan holds humidity-controlled storage, unbroken dry packs with indicator cards, floor-life tracking on any opened reel, and baking before despatch where required, taking MSL handling compliance from 46% to 100% and median date-code age at shipment from 14 months to 5. EOL and last-time-buy stock is a legitimate and valuable service — but is never sold without its date code stated, because a buyer told only the part number would draw exactly the wrong conclusion about a device manufactured nine years ago.

□ **OBSOLESCENCE AND LAST-TIME-BUY,** which is the same disclosure problem wearing different clothes. Components go end-of-life on the manufacturer's schedule, not the customer's, and a product designed for a ten-year service life will outlive several of the parts in it — so a distributor holding EOL stock is either a genuinely valuable source or a graveyard, and from outside the two look identical. This plan participates in last-time-buy only against written customer commitment rather than optimism, reports EOL stock as a share of inventory with its ageing (17% falling to 6%), and treats the distinction between slow stock that is service

and slow stock that is error as a decision requiring evidence rather than a spreadsheet sort. The buyer of an EOL part is told its date code and its age before he orders, because the part is not defective and the disclosure is not an apology — it is the information on which he decides whether to buy this lot or redesign.

8. Operations Plan (source, receive, inspect, store, kit, despatch)

Sourcing

- **Franchised lines first, always** — direct factory orders against forecast, with the manufacturer's own traceability accepted as sufficient.
- **Open-market sourcing only where the franchised route cannot serve**, requiring documented approval, inspection, and disclosure on the customer document.
- **Forecast collaboration with major EMS accounts**, which converts guesswork into scheduled stocking and is the single largest determinant of inventory health.
- **Last-time-buy participation** on lines going EOL where a customer's product life justifies it, purchased against written customer commitment rather than hope.

Goods inward

- **Every receipt logged against lot, manufacturer date code, quantity and packaging condition** before it enters saleable stock — no exceptions for urgent orders, because the urgent order is where the record is always lost.
- **Packaging and dry-pack integrity checked and photographed**; indicator cards read and recorded.
- **Franchised receipts** — documentation check and visual verification against expected packaging.
- **Open-market receipts** — full authenticity inspection: high-resolution marking examination, marking permanency test, X-ray of a sample against a known-good device, electrical verification against the datasheet, and decapsulation on a sample where value justifies it.

Storage

- **ESD-protected throughout** — flooring, wrist straps, bins, packaging and periodic verification of the ESD system rather than an annual certificate.
- **Humidity-controlled zone for moisture-sensitive devices**, with dry cabinets and floor-life clocks on any opened reel.
- **Location-controlled binning with lot segregation**, so two lots of the same part number never merge — the single most common way traceability is destroyed in this trade.
- **Ageing and EOL reporting monthly**, read as a valuation document per the vertical anchor.

Value-added services

- **Kitting to a customer bill of materials**, which is where a distributor earns margin the catalogue houses cannot.
- **Reeling, taping and partial-reel handling** with the parent lot identity carried onto every split.
- **Programming and pre-testing** on selected device classes.
- **Consignment and buffer stock** for anchor accounts, priced for the capital it consumes.

Despatch and after-sale

- **Documentation pack with every consignment** — line-level franchise status, lot, date code, MSL level and floor-life status.
- **Bake-before-despatch** where floor life has been consumed, recorded per lot.

- **Failure investigation support** — a customer reporting a field failure receives the lot history, not a replacement and a shrug.
- **Return-to-manufacturer route** on franchised lines; open-market lots carry this operator's own liability, which is a further reason to minimise them.

The operational hinge is that traceability is destroyed by convenience, not by dishonesty. Two part-lots tipped into one bin, a partial reel relabelled without its parent identity, an urgent receipt binned before the paperwork catches up — each is a small kindness to the person in a hurry, and each is irreversible. So the system refuses rather than warns: stock cannot be allocated to an order until its lot record exists, which converts a discipline that decays into a gate that holds.

Quotation, pricing and credit

- **Quotations state franchise status, lead time source and date-code expectation per line**, so the buyer is comparing like with like against whatever else is on his desk.
- **Price is quoted against quantity break and a stated validity**, with currency and duty movement identified as the reason validity is short rather than hidden behind a revision.
- **Credit limits set and enforced by finance**, released by finance and not by the salesperson whose target the order serves — the same control-independence rule applied to money instead of quality.
- **No order accepted below carrying cost** to hold a relationship, because a distribution book carries its own funding and a line sold at gross margin below its inventory cost is a subsidy paid out of the lender's facility.

9. Import, Product Liability & Operating Compliance (India)

- **Company & tax** — Private Limited, PAN/TAN, GST, IEC, customs broker engagement, and correct treatment of bonded and high-seas stock.
- **Import** — HSN classification, customs valuation, BIS registration where the component class requires it, and country-of-origin declarations kept consistent with the manufacturer's own documents.
- **Representation** — quoting a manufacturer part number is a specification claim reaching the Consumer Protection Act's unfair-trade-practice provisions and the Sale of Goods Act's implied conditions as to description; **a counterfeit supplied in good faith is still a breach.**
- **Downstream liability** — consequential loss from a failed component can exceed the reel's value by orders of magnitude; traceability records and product-liability cover are the response.
- **Quality agreements** — customer QAs typically impose ESD control, MSL handling, counterfeit-avoidance policy and audit rights; these are contractual obligations, not aspirations.
- **Environment & workplace** — e-waste and EPR on scrapped and rejected material, RoHS/REACH declarations passed through, EPF/ESI, shops & establishments, POSH, and fire clearance for the warehouse.

10. Organisation & Manpower Plan

Function	Yr 1	Yr 3	Notes
Promoter / MD	1	1	Line card, franchise relationships, sourcing approvals
Sales & inside sales	5	13	Field and desk; quotations, forecast collaboration
Field application / technical	1	4	Design-in support; the reason a designer specifies a line

Quality & authenticity inspection	2	5	Reports to quality, never to sales
Warehouse, kitting & despatch	6	15	ESD and MSL trained; lot discipline
Purchase, import & planning	2	5	Forecast, allocation management, customs coordination
Finance, credit & admin	2	4	Credit control is a core function here, not overhead
Total	19	47	Employed; incentives on margin and inventory health, not volume

One structural rule governs the organisation: the authenticity inspector does not report to the person whose order he can stop. Sales carries a fill-rate target, inspection carries a rejection authority, and if the second reports to the first the second does not exist. Equally, sales incentives are paid on gross margin net of inventory carrying cost and on ageing performance — because a salesperson rewarded on revenue will happily sell the fast lines and leave the buyer with the slow ones.

Training and competence

- **ESD and MSL handling certified for every warehouse and despatch role**, re-verified annually rather than signed once at induction.
- **Counterfeit-awareness training for inspection and purchase staff**, refreshed as re-marking techniques change, since the failure modes move faster than any written procedure.
- **Technical product training from franchise partners** for field application and inside sales — the manufacturer supplies it, and the distributors who do not take it lose the design-in.
- **Customs and documentation competence in the import function**, held in-house rather than delegated entirely to a broker.

11. Implementation Timeline & Milestones

Phase	Window	Milestones
Formation & facility	Month 0–3	Incorporation, IEC and GST, warehouse lease, ESD flooring and humidity zone, ERP selection
Line card	Month 2–6	First franchise appointments; distribution agreements; opening stock plan against named accounts
Systems live	Month 4–7	Lot-level traceability, MSL floor-life tracking, line-level franchise status on quotation and invoice
Commercial ramp	Month 6–14	EMS and OEM accounts onboarded; forecast collaboration with the first anchor account
Value-added	Month 10–18	Kitting and reeling live; programming service; first customer quality audit passed
Scale	Month 18–36	Additional franchises, second location or bonded facility, consignment programmes

12. Financial Plan (Illustrative)

All figures are illustrative model assumptions, not forecasts or guarantees. They exist to show the drivers of a components-distribution P&L and how the disclosure controls move them. Every input is editable. **The defining feature of**

this model is that profit comes from turning capital, not from widening margin — a distributor who improves gross margin by two points while adding thirty days of inventory has made himself poorer.

12.1 Project cost & funding

Item	₹ lakh	Notes
Warehouse fit-out — ESD flooring, racking, humidity zone, dry cabinets	96	Leased premises; fit-out capitalised
Inspection & test equipment	64	Microscopy, X-ray access, electrical test, marking-permanency kit
Kitting, reeling & programming equipment	38	Value-added services
ERP, traceability & e-commerce systems	42	Lot-level from day one; retrofitting it is not practical
Vehicles, handling & office	30	Local delivery, warehouse handling
Security deposits & pre-operative	40	Lease, utilities, registrations, franchise onboarding
Opening inventory	290	The business — often prepaid to the manufacturer
Working capital & contingency	140	Receivables at 45–60 days against prepaid stock
Total project cost	740	₹260L investor + ₹280L WC facility + ₹160L promoter + ₹40L term loan

12.2 Operating metrics

Metric	Yr 1	Yr 2	Yr 3
Franchise status stated per line on quotation & invoice / open-market lots inspected before sale	100% / 100%	100% / 100%	100% / 100%
Counterfeit or re-marked lots detected and rejected / open-market share of purchases	18 / 9.4%	31 / 7.1%	41 / 5.8%
Franchised share of shipments — normal / shortage conditions	89% / 68%	92% / 73%	94% / 76%
MSL & dry-pack compliance / median date-code age at shipment	46% / 14 mo	83% / 8 mo	100% / 5 mo
GMROI / days inventory / EOL stock share	148% / 118 / 17%	201% / 89 / 11%	268% / 71 / 6%
Active accounts / line fill rate / lines shipped per month	210 / 84% / 3,100	390 / 90% / 6,400	620 / 94% / 10,800

Read the second and third rows together, and read them the way this library reads every gate. Rejections **RISING** from 18 to 41 while open-market share **FALLS** from 9.4% to 5.8% is the pattern that indicates a working inspection function — fewer risky lots bought, more of the bad ones caught within them. An inspection regime whose rejection count trends to nil is not clean; it has stopped inspecting, exactly as the EMS plan sets out. And the shortage column is the honest one: 76% franchised in shortage against 94% normal is not a failure, it is what supporting customers through an allocation cycle actually costs in provenance terms — and a distributor reporting 94% in both is either not serving customers in a shortage or not counting properly.

12.3 Revenue build

Stream	Yr 1 (₹L)	Yr 2 (₹L)	Yr 3 (₹L)	Driver
Semiconductors — franchised	1,360	2,378	3,864	ICs, discretes, power; the volume core
Passives & electromechanical — franchised	918	1,566	2,484	High line count, high service value
Connectors, cable & enclosures	476	812	1,288	Better margin, slower turns
Modules & embedded boards	306	522	920	Wireless, display, sensor modules
Open market — disclosed & inspected	238	348	460	Deliberately shrinking as a share
Kitting, reeling, programming & services	102	174	184	Value-added, margin-accretive
Total revenue	3,400	5,800	9,200	Illustrative

12.4 Gross margin by channel — reported separately, never blended

Channel	Yr 1 GM%	Yr 3 GM%	Yr 3 GM (₹L)	Note
Franchised — semiconductors	7.8%	8.4%	325	Thin by design; volume and turns carry it
Franchised — passives & EM	10.6%	11.2%	278	Line count is the service
Connectors & enclosures	14.2%	15.0%	193	Slower, better margin
Modules & embedded	16.8%	17.4%	160	Technical selling required
Open market — disclosed	26.4%	24.6%	113	High margin is a shortage artefact, not a skill
Services	38.0%	41.0%	75	Labour and equipment, not stock
Blended	11.8%	12.4%	1,144	Meaningless without the rows above it

This table exists because the blended figure is the number the trade quotes and the number that conceals the question. A distributor reporting 12.4% blended could be running 8% franchised across the whole book, or 8% franchised plus a quarter of his gross profit from open-market arbitrage during an allocation crisis — two completely different businesses with the same headline. The library rule applies without modification: a blended average must carry the underlying figures, or it is a way of not answering. Here open-market work is 5.8% of purchases and 9.9% of gross profit, and both numbers are published so that an investor can see the disproportion and ask about it.

12.5 P&L summary

Line	Yr 1 (₹L)	Yr 2 (₹L)	Yr 3 (₹L)
Revenue	3,400	5,800	9,200
Cost of goods sold	(2,999)	(5,092)	(8,056)
Gross profit	401	708	1,144
Employee cost	(228)	(342)	(486)
Warehouse, rent & utilities	(74)	(88)	(112)
Inspection, traceability & MSL compliance	(46)	(58)	(72)

Freight, customs & logistics	(52)	(78)	(114)
Selling, marketing & travel	(38)	(56)	(82)
Inventory write-down & obsolescence	(41)	(44)	(38)
Admin, insurance & professional	(34)	(46)	(62)
EBITDA	(112)	(4)	178
Depreciation & amortisation	(48)	(52)	(56)
Finance cost — working capital & term	(38)	(52)	(64)
Other income — supplier rebates & scheme income (<i>disclosed</i>)	126	262	496
PBT	(72)	154	554
Tax	4	(38)	(140)
PAT	(68)	116	414
Net margin	(2.0%)	2.0%	4.5%
ROCE	(11.8%)	14.9%	36.2%

Two lines require the vertical's disclosure discipline rather than a footnote. The first is supplier rebate and scheme income at ₹4.96 crore in Year 3 — larger than PBT, exactly as the consumer-durables plan warned, and therefore reported as a separate line rather than netted into cost of goods sold, since a business whose profit is a manufacturer's scheme is a business whose profit the manufacturer can withdraw. The second is inventory write-down, which FALLS from ₹41L to ₹38L while revenue nearly triples — that is the ageing discipline working, and it is the honest place to look for whether this distributor is holding stock or hoarding it. ROCE is reported beside net margin per the anchor, because 4.5% on a distribution book that turns five times is a materially better business than 4.5% on one that turns twice, and net margin alone cannot show the difference.

12.6 Break-even & sensitivity

Scenario	Yr 3 revenue	Yr 3 PAT	Comment
Base	₹92.0cr	₹4.14cr	As modelled
Gross margin down 100bps	₹92.0cr	₹1.24cr	The most dangerous single sensitivity in the model
Days inventory 71 → 95	₹92.0cr	₹3.32cr	Finance cost plus write-down; GMROI falls to 201%
Rebate income down 25%	₹92.0cr	₹3.21cr	Why it is disclosed separately
Franchise lost on a major line	₹78.0cr	₹1.86cr	Revenue and rebate together; the concentration risk
Receivable days 58 → 78	₹92.0cr	₹3.48cr	Finance cost; credit control is a profit function here

The gross-margin row is the one to read first: a single percentage point of gross margin is ₹92 lakh, against a base PAT of ₹4.14 crore. In a business running 12.4% gross and 4.5% net, price discipline is not a commercial preference but the difference between a return and a loss — which is precisely the pressure that makes undisclosed open-market sourcing attractive, and precisely why the disclosure has to be structural rather than voluntary.

12.7 Working capital & cash cycle

Element	Yr 1	Yr 2	Yr 3	Note
Days inventory	118	89	71	The lever that produces the return
Days receivable	62	59	58	EMS and OEM terms; enforced by finance
Days payable	21	26	31	Short — franchised stock is frequently prepaid
Cash conversion cycle (days)	159	122	98	Every day removed releases roughly ₹25L at Year-3 scale
Working capital employed (₹L)	1,480	1,940	2,470	Funded by facility plus retained earnings
Operating cash flow (₹L)	(268)	(94)	186	Growth consumes cash even while profitable

The payable line is the one an investor should question, because it inverts the assumption most distribution models rest on. A franchised distributor frequently prepayes the manufacturer or opens a letter of credit against a factory order placed months ahead, then sells on 58 days — so unlike most trading businesses, the supplier does not fund the stock and the distributor does. That is why days inventory rather than gross margin is the metric this business lives on, why operating cash flow stays negative through Year 2 despite Year-2 profitability, and why a growth rate above facility headroom is a solvency risk rather than a good problem.

13. Funding Requirement & Bankability

Source	₹ lakh	Terms (indicative)
Investor equity	260	Growth capital; board seat; line-card and inventory covenants
Working-capital facility	280	Cash credit against stock and book debt — the core facility
Promoter contribution	160	Cash and assets
Term loan	40	Fit-out and equipment; 5 years
Total	740	Illustrative structure

The bankability case rests on collateral quality, and that is where the traceability discipline pays for itself commercially. A lender funding a components distributor is lending against stock, and stock whose lots are documented, whose date codes are known, whose MSL status is intact and whose ageing is reported honestly is genuinely realisable collateral. Undocumented stock of uncertain provenance is not — it cannot be sold to a franchised buyer, cannot be returned to a manufacturer, and in a distress sale fetches scrap. The same records that let a customer's quality auditor reconstruct a reel let a lender's stock auditor value the security, which means the control has two independent commercial justifications and does not depend on the buyer valuing honesty.

- **Use of funds** — 39% opening inventory, 19% working capital, 13% fit-out, 9% inspection equipment, 6% systems, balance equipment, deposits and pre-operative.
- **Repayment** — term loan from Year 2 EBITDA; working-capital facility revolving against a stock and debtor base whose quality is auditable monthly.
- **Investor exit** — strategic sale to a national or global distributor seeking territory, or a secondary once the line card and franchise base are established.

14. Risk Analysis & Mitigation

Risk	Impact	Mitigation
Counterfeit or re-marked parts enter the chain	Existential — customer field failures, consequential loss claims, franchise termination, reputation that does not recover	Franchised sourcing first, with open-market purchase requiring documented approval, full authenticity inspection and disclosure on the customer document; lot traceability retained; 41 lots rejected in Year 3, and the rejection count is reported rather than buried, because an inspection function finding nothing is not inspecting
Shortage-cycle temptation — margins exceeding 100% on parts of unknowable provenance while customers are desperate	The single largest integrity exposure in the business, and it arrives exactly when the P&L is under most pressure	Franchised share of shipments reported separately for shortage and normal conditions (76% / 94%), margin disclosed by channel rather than blended, and sourcing approval authority held outside sales; the estimated ₹1.94cr of Year-3 revenue declined is stated in the plan rather than discovered later
MSL and floor-life failures — reels that crack during the customer's reflow	Intermittent field failures diagnosed as the customer's process problem, so the harm lands on him and never traces back	Humidity-controlled storage, unbroken dry packs with indicator cards, floor-life clocks on opened reels, bake-before-despatch recorded per lot, MSL status printed on the despatch document; compliance 46% → 100% and median date-code age 14 → 5 months
Gross-margin compression from catalogue and national distributors	1% of gross margin is ₹92L against ₹4.14cr PAT — the most sensitive line in the model	Compete on availability, kitting, credit, local support and forecast collaboration rather than price; services at 41% margin; walk away from business priced below carrying cost, and measure salespeople on margin net of inventory cost
Inventory obsolescence and technology transition	Stranded stock; the classic way distributors die quietly with a healthy-looking P&L	Monthly ageing read as a valuation document per the anchor; GMROI by decile per the it-peripherals rule; EOL share 17% → 6%; last-time-buy purchases only against written customer commitment; and a standing rule that slow stock which is service and slow stock which is error are separated before either is cut
Franchise loss or line-card concentration	Revenue and rebate income together — ₹78cr and ₹1.86cr PAT in the modelled case	Deliberate breadth across manufacturers, no line above a stated share of gross profit, audit-ready systems that make appointment renewal straightforward, and rebate income disclosed separately so its withdrawal is visible in advance
Working capital and receivable stress	Stock is often prepaid while customers pay at 45–60 days; growth consumes cash faster than it generates it	Cash-credit facility sized to the book, credit limits enforced by finance rather than sales, credit insurance on larger accounts, consignment priced for the capital it consumes, and growth deliberately throttled to facility headroom
Traceability destroyed by convenience — merged lots, relabelled partial reels, urgent receipts binned before paperwork	Silent and irreversible; discovered only during a failure investigation, when it is worth most	The system refuses rather than warns: stock cannot be allocated to an order until its lot record exists, partial reels carry the parent lot identity onto every split, and lot segregation is a binning rule enforced by the ERP rather than a training message

15. SWOT Analysis

Strengths • Franchise status stated per line on every quotation and invoice • Lot-level traceability with manufacturer date codes retained • Open-market lots inspected and disclosed, with rejections reported • MSL and floor-life discipline held where the trade ignores it • GMROI 268% with days inventory at 71	Weaknesses • Cannot compete on price against catalogue publishing • Thin blended gross margin with no room for error • Working-capital hungry; growth consumes cash • Dependent on franchise appointments that others grant
Opportunities • Domestic electronics manufacturing growth under PLI • EMS quality agreements creating demand for auditable supply • Kitting, programming and consignment as margin-accretive services • Shortage memory giving supply security a stated value	Threats • Counterfeit incident at any point in the chain • Allocation cycles that reward the least scrupulous • Technology transitions stranding inventory • Manufacturer going direct or consolidating distribution • Currency and duty movement on imported stock

16. Recommended AiSevak Tools for This Business

- **Quotation & invoice generator** — with franchise status carried per line, so the disclosure is produced by the document rather than remembered by the salesperson.
- **Inventory & lot traceability tracker** — receipts, date codes, lot segregation, partial-reel parentage and floor-life clocks.
- **Ageing & GMROI reporter** — monthly ageing by decile, EOL share and stock valuation.
- **Supplier & purchase-approval workflow** — open-market approvals, inspection records and rejection logging.
- **Credit control & receivables tracker** — limits, ageing and collection follow-up.
- **Customer forecast & consumption planner** — forecast collaboration with anchor accounts.
- **Compliance calendar** — GST, customs, BIS, EPR, EPF/ESI and quality-agreement audit dates.

17. Key Assumptions & Notes

- **All financials are illustrative model assumptions, not forecasts, projections or guarantees.** Revenue, margins, rebate income, inventory turns and headcount are editable inputs; actual outcomes depend on line card, territory, customer mix, allocation conditions and working-capital availability. Figures are in Indian rupees.
- **The central integrity finding is that one word covers two materially different relationships.** A franchised distributor holds a direct contract with the manufacturer and can trace a reel to the factory; an independent or broker buys on the open market with no such chain. Both are called distributors, both quote the same part numbers, and the buyer cannot tell them apart from the invoice — which is why the EMS plan's counterfeit exposure exists at all. **The response is a document change rather than a policy: franchise status per line on every quotation and invoice, lot traceability with manufacturer date codes, and open-market lots inspected and flagged as such. The generalisable rule is that where one word covers two different relationships, the honest operator discloses which one he is on every document, not on request — because a buyer who does not**

know the distinction exists does not know there is a question to ask, and the entire commercial value of the ambiguity depends on his not asking.

- **Integrity is tested in the shortage, not in the ordinary month.** During allocation cycles prices multiply, the open market fills with re-marked and recycled parts, and margins that can exceed 100% against 5–12% on franchised lines make the temptation structural rather than occasional. **So the plan reports franchised share of shipments separately for shortage and normal conditions (76% against 94%) and discloses gross margin by channel rather than blended — because a distributor reporting 12.4% blended could be running a clean book or drawing a tenth of his gross profit from arbitrage during someone else's crisis, and the blended figure cannot distinguish them. A blended average must carry the underlying figures, or it is a way of not answering. The distributor who "always has stock" during a shortage is telling the buyer something he should find alarming.**
- **MSL, date code and floor life are real, checkable and universally ignored, because their failures land on somebody else.** A moisture-sensitive reel stored or shipped wrong cracks internally during reflow at the customer's plant weeks later, where it presents as his oven profile and is diagnosed as his fault — which is exactly why the discipline decays everywhere it is not enforced. Dry-pack integrity, floor-life tracking, bake-before-despatch and MSL status on the despatch document take compliance from 46% to 100% and median date-code age from 14 months to 5. **EOL and last-time-buy stock is a genuine service, but is never sold without its date code stated, since a buyer told only the part number would draw the wrong conclusion about a device manufactured nine years ago.**
- **Traceability is destroyed by convenience, not dishonesty, so the system refuses rather than warns.** Two lots tipped into one bin, a partial reel relabelled without its parent identity, an urgent receipt binned before the paperwork — each is a small kindness to somebody in a hurry and each is irreversible. Stock cannot be allocated to an order until its lot record exists. **And authenticity inspection reports to quality, never to sales, because the person whose fill rate the rejection destroys cannot be the person who authorises it — the library's control-independence rule applied to the one decision that can end this business.**
- **The metrics that must rise are stated as such, and the plan is read against them.** Counterfeit lots detected and rejected rise from 18 to 41 while open-market purchases fall from 9.4% to 5.8% — fewer risky lots bought, more of the bad ones caught. **An inspection function whose rejection count trends toward nil is not clean, it has stopped looking.** Grade the operator on rejections found, disputes upheld and near-misses reported, never on their absence.
- **The vertical anchor's conventions carry unchanged:** electronics loses value while it sits, so the ageing report is a valuation document; GMROI is the trading metric and is reported by decile per the it-peripherals plan; ROCE is reported beside net margin, since 4.5% on a book turning five times is a materially different business from 4.5% on one turning twice; and supplier rebate income — ₹4.96 crore in Year 3, larger than PBT — is disclosed as a separate line rather than netted into cost of goods, because a business whose profit is a manufacturer's scheme is a business whose profit the manufacturer can withdraw.
- **The cost of the honest position is stated in rupees rather than implied.** Declining open-market stock that cannot be authenticated costs an estimated ₹1.94 crore of Year-3 revenue at unusually high margin; disclosing open-market status on the document loses roughly a fifth of the remaining orders outright, because a buyer under schedule pressure would often rather not have been told. **The offsetting return is that this operator can hold franchise appointments, pass customer quality audits and offer a lender realisable collateral — and a distributor who can do none of those is competing on price alone against parties with lower costs and fewer scruples.**
- **The business lives on the cash conversion cycle rather than on margin, and the plan should be read that way.** A franchised distributor frequently prepays the manufacturer or opens a letter of credit against a factory order placed months ahead, then sells on 58 days — so the supplier does not fund the stock, the distributor does. Days inventory falling from 118 to 71 is what carries ROCE from negative to 36.2%; the same result cannot be obtained by

widening gross margin, because gross margin here is set by manufacturers and by published catalogue pricing.

Operating cash flow stays negative through Year 2 despite Year-2 profitability, which is normal for this model and is the reason growth above facility headroom is a solvency risk rather than a good problem.

- **Compliance is continuous and runs through customs, contract and product liability at once.** Import classification, valuation, BIS and origin declarations; the Sale of Goods Act's implied conditions as to description, under which a counterfeit supplied in good faith is still a breach; consequential-loss exposure far exceeding the value of a reel; customer quality agreements imposing ESD, MSL and counterfeit-avoidance obligations with audit rights; GST including bonded and high-seas stock; e-waste and EPR on scrapped material; and EPF/ESI, POSH and fire clearance. Professional advice should be taken on the specific line card, territory and customer base.

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