Lava International Limited

March 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	220.00 (Reduced from 250.00)	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	650.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Lava International Limited (Lava) factors in improved operational performance during FY22 (refers to the period from April 01 to March 31) which continued during H1FY23 (refers to the period from April 01 to September 30), healthy order book position from government authorities, expanding global footprints through acquisition of a Panama based company to cater to Latin American market and addition of new customers with higher revenue visibility. The ratings also continue to derive strength from its experienced promoters and management team, comfortable financial risk profile, wide distribution network and streamlined business operations with established R&D team which help them adapt faster to changing technology. The ratings, however, are constrained by elongated operating cycle, continued reliance on third-party suppliers for its majority of raw material requirement, its exposure to foreign currency transactions and stiff competition in Indian mobile handset market along with declining trend in feature phone segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in operational performance thereby leading to ROCE of more than 18%
- Sustained improvement in operational cash flow along with recoverability of long due debtors

Negative factors

- Sustained decline in scale of operations with PBILDT margin below 5.00% and ROCE below 6%.
- Increase in working capital cycle beyond 90 days

Analytical approach: Consolidated

CARE has changed its approach from Standalone to Consolidated owing to the same management and similar product line as international business of Lava holds ~70% of the total operating revenue at consolidated level. List of entities consolidated is given in Annexure-6.

Outlook: Positive

The revision in the outlook from stable to positive reflects expected improvement in the operational performance of the company in near to medium term backed by increase in scale of operations and better sales realizations as a result of acquisition of China Bird Group, S.A. along with the estimated growth in white label business as per the recent tie up with leading mobile brand for five years. Ability of the company to increase its geographical presence and its own brand 'Lava' shall remain key monitorable. The outlook may be revised from Positive to Stable in case of lower than envisaged operational performance for full FY23.

Key strengths

Growing scale of operations along with improved profitability

On a consolidated basis, Total Operating Income (TOI) of the company registered growth of ~7% during FY22 and stood at Rs 5,886 crore during FY22. The growth is on account of increase in the business from domestic as well as international market wherein the sales from latter is driven from trading activity constituted ~70% of the TOI. The acquisition of China Bird group is a step towards increasing global footprints by extending its reach to Latin American countries where China Bird Group has established presence for more than a decade. Apart from this, company has launched new smart phones under the brand Agni (Agni 5G), Lava Blaze (Blaze 5G/ Blaze Pro/ Blaze Next) and Yuva (Yuva/Yuva Pro) along with new feature phones with 4G connectivity during FY23. Further, 7 new launches under these brands with different specifications are proposed to be launched till the end of FY23. Furthermore, company has tied up with leading mobile brand from FY23 for 5 years for manufacturing and selling of feature phones under the royalty agreement wherein lava pays 4% royalty on the sales of mobile phones under their brand. Continuous and increased business from government agencies along with the growing white label business will further ensure growth in the business. With the growing scale of business, PBILDT margin improved by 127 bps and stood at 5.65% during FY22 on account of increased sales through trading activity in export market where margins are better. Also, in domestic market, sales to government agencies improved which has helped the company in maintaining its margins. Going forward, with the growth in export market, PBILDT margin of the company is expected to improve, though the impact of healthy contribution from acquired asset, benefit from PLI scheme shall be the key monitorable.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Due to increase in capex thereby leading to incremental depreciation and increase in interest cost, PAT margin is expected to be rangebound. During H1FY23, company has recorded TOI of Rs 2926 crore with PBILDT margin of 6.10%.

Experienced promoters and management term
Lava is promoted by Mr. Hari Om Rai, Mr. Shailendra Nath Rai, Mr. Vishal Sehgal and Mr. Sunil Bhalla. Mr. Hari Om Rai, Chairman and the Managing Director (MD) of the company is co-chairing the task force for "Make in India" program of the Government of India. All the promoters are part of the Board of Directors of the company having background in engineering and management studies with wide experience in varied fields. The board is ably supported by a team of highly qualified and experienced professionals from telecom and consumer durable industry.

Wide distribution network and streamlined business operations
Lava has a well-established distribution model and support-service network consisting of 950+ distributors, who further distribute products to 1,10,000+ retailers and micro-distributors across India along with 20 carrying & forwarding agents providing sales and distribution support. It's after sales service network is spread all around the country with over 800 + professionally managed service centres focused on transparency and quality of service. Internationally, company sells mobile handsets, tablets and other electronic accessories through local distributors and retailers by entering into strategic collaborations with leading domestic telecommunications companies for manufacturing based on the design given by Lava's R&D team. Due to strong distribution channel, feedback about the models reaches to R&D team fast, helping them adapt to changing design and technology trend.

Comfortable capital structure and debt coverage indicators
The financial risk profile of the company stood comfortable characterized by satisfactory overall gearing and healthy debt coverage indicators. As on March 31, 2022, the overall gearing of the company stood at 0.25x (PY: 0.17x). Debt coverage indicators also remained comfortable with interest coverage ratio and Total Debt to Gross Cash Accruals of 8.35x and 1.82x as on March 31, 2022 respectively (PY: 8.45x and 1.37x).

Key weaknesses

Elongated operating cycle
The operating cycle at the group level stood at 81 days as on March 31. 2022 (PY: 72 days) due to increase in the inventory days from 25 days as on March 31, 2021 to 39 days as on March 31, 2022 on account of order in hands pending to be executed in April 2022. Apart from this, in the standalone financials, working capital cycle stood high at 169 days on account of high level of debtors outstanding of more than six months amounting to Rs 555 crore (after adjusting provisions created) (PY: 576.32 crore) thereby leading to elongated average collection period of 157 days as on March 31, 2022 (PY: 181 days). These debtors comprise of multiple retailers under accessories segment which were impacted due to COVID-19 led disruptions. Though, in the current year, company recovered approx. Rs 26 crore from these debtors, however, recoverability of the remaining amount remains a key monitorable. The company has to maintain the minimum levels of inventory to meet delivery schedules as it imports majority of its raw materials and thus the company needs to stock up the requisite inventory leading to inventory days of around 2 to 2.5 months.

Reliance on third-party suppliers for its majority of raw material requirement
Lava is dependent on the third-party suppliers for its raw material requirements. As per the earlier business model of the company, it did not manufacture the products but only assemble the Semi Knocked Down units (SKDs) to produce Completely Built Units (CBUs). However, with recent developments in the manufacturing capacities of company, it has increased its focus on manufacturing handsets in India and to obtain raw material locally. Despite that, majority of sourcing is being made through third-party vendors located in China/Hong-Kong, which exposes the company to inherent risks of dependence on third parties and imports. Going forward, the reliance of the company on supplier for raw material is expected to reduce and shall remain a key monitorable.

Foreign exchange exposure
Lava is exposed to foreign exchange rate risk on account of import of SKDs from OEM partners based in China/Hong Kong/ Singapore and Korea. As a policy, the company maintains buffer (of 2%-3%) in prices for any adverse forex movement; further, based on the management's insights and market information, the company enters into hedging to cover part of its foreign exchange risk. Due to the currency fluctuations company reported gain on foreign exchange transactions of ~Rs. 9 crore during FY22 (PY: ~Rs. 6 crore).

Stiff Competition in Indian mobile handset market along with declining trend in feature phone segment
The Indian mobile handset industry is marked by high level of competition with the market being highly price sensitive and value driven. The industry is fragmented with a large number of both domestic and foreign players operating in the market, which has led to stiff price competition. Further, as more players are setting up manufacturing units in India post increasing support from Government of India through various initiatives and schemes, the production is expected to rise and hence the exports. Given the nature of industry, LAVA continues to remain exposed to various ecosystem challenges that include increasing competition, volatile exchange rates, technology obsolesce risk, product failures, IP conflicts. The ability of LAVA to effectively manage these issues shall remain a key rating sensitivity. Further, the overall feature phone segment continued to decline, reflecting the prevailing macro-economic environment, and weak consumer sentiment. Both 2G and 4G feature phone segment declined by 21% and 58% YoY respectively.

Industry Outlook
The Indian mobile phone market consisted of 255 million units in FY22, which is likely to grow at a CAGR of 9.7% to reach 370 million units by FY26. The Government in India is encouraging domestic manufacturing through supporting policies and initiatives that are likely to lead to overall development in the ecosystem and will open up gates of opportunities for companies, vendors, and distributors in the market. Some of the key initiatives/ schemes/ programs introduced by the government in boosting the mobile phone market and related manufacturing industry in India include 'Make in India', Product Linked Incentive (PLI) Scheme, Schemes for Promotion of Manufacturing of Electronic Components and Semiconductors. Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) etc. Also, Company has met the target under PLI, though, the invoicing is not done as of now.

Liquidity: Adequate
Lava's liquidity position has remained adequate marked by healthy gross cash accruals of Rs. 302.05 crore against which it has a total debt repayment obligation of Rs. 12.29 cr. in FY23 along with comfortable current ratio of 2.18x as on March 31, 2022. The group had free cash & bank balance of Rs. 35.28 crore as on March 31, 2022 (PY: Rs. 16.15 crore). The average working capital utilization of the group stood moderate at ~63% during the trailing 12 months ending November 2022. The operating cycle of the group elongated to 81 days as on March 31, 2022 (PY: 72 days) on account of higher inventory days and continued elongated realisation period. The group's healthy cash accruals and un-utilized working capital limits provides sufficient cushion against funds mismatch, if any, as well as any adverse market scenarios. Under PLI scheme, company needs to invest Rs 200 crore in four years and thus accordingly, company has projected capex of Rs 50 crore every year for which no debt has been sanctioned as on date. Capex of Rs 50 crore in FY23 pertains to the backward integration for manufacturing of camera modules.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading
Policy on Withdrawal of Ratings

About the company and industry
Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

Incorporated in 2009, Lava is promoted by Mr Hari Om Rai, Mr Sunil Bhalla, Mr Shailendra Nath Rai and Mr Vishal Sehgal. The company is engaged into designing, manufacturing, assembling, trading and distribution of mobile handsets, tablets and accessories under the brands 'Lava' and 'Xolo'. The company has set-up assembling unit in Noida (Uttar Pradesh) with the total production capacity of around 48 million handsets per annum as on March 31, 2022. Lava also has 6 SMT lines with a capacity of around 9 million circuits per annum.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	5512.87	5886.68	2926
PBILDT	241.50	332.72	178
PAT	172.61	186.87	86.70
Overall gearing (times)	0.17	0.25	NA
Interest coverage (times)	8.45	8.35	NA

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	150.00	CARE BBB+; Positive
Fund-based - LT-Term Loan		-	-	June 2026	70.00	CARE BBB+; Positive
Non-fund-based-Short Term		-	-	-	650.00	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based-Short Term	ST	650.00	CARE A2	1)CARE A2 (06-Apr-22)	-	1)CARE A3+ (25-Mar-21) 2)CARE A3+ (11-May-20)	-
2	Fund-based - LT-Cash Credit	LT	150.00	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-22)	-	1)CARE BBB; Stable (25-Mar-21) 2)CARE BBB; Stable (11-May-20)	-
3	Fund-based - LT-Term Loan	LT	70.00	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-22)	-	1)CARE BBB; Stable (25-Mar-21) 2)CARE BBB; Stable (11-May-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of Entities Consolidated

Sr. No.	Name of the Entities	Shareholding
1	Lava Enterprises Limited	99.05%
2	Sojo Distribution Private Limited	90.00%
3	Sojo Manufacturing Services (A.P.) Private Limited	99.97%
4	Sojo Manufacturing Services Private Limited	99.95%
1	LAVA International (H.K.) Limited	100.00%
2	Xolo International (H.K) Limited	100.00%
3	Lava Technologies DMCC	100.00%
4	Lava Tecnologies LLC (USA)	100.00%
5	Pt. Lava Mobile Indonesia	95.00%
6	Lava International DMCC, UAE	100.00%
7	Lava Mobility (Private) Limited, Sri Lanka	100.00%
8	Lava Mobile Mexico S.DER.L. DE C.V.	99.00%
9	Lava International (Myanmar) Co. Limited	99.00%
10	Lava international (Nepal) Private Limited	100.00%
11	Lava International (Bangladesh) Limited	99.99%
12	China Bird Centroamerica	100.00%
13	China Bird Hong Kong Limited	100.00%
14	China Bird Guatemala, S.A.	100.00%
15	B Telecommunicatciones Mexico SA DECV	100.00%
16	B Mobile America	100.00%
17	Sms De Guatemala, S.A.	100.00%
18	Momemtum HK, Ltd	100.00%
19	B Mobile Europa	100.00%
20	Mobile Consumer Products, S.A.	100.00%
21	B Telecommunicaciones Colombia, SAC	100.00%
22	B Telecommunicaciones Colombia, Latinoamerica, S.A.	100.00%
23	Poder Ecuatoriano De Manufactura Y Desarrollo Poecumade, S.A.	100.00%
24	B Telecomunicaciones Peru, S.A.	100.00%
25	Azumi S.A.	100.00%
26	Azumi S.A. Agencia En Chile	100.00%
27	Azumi Hong Kong Ltd	100.00%
28	Azumi Mobile, Africa	100.00%
29	Azumi USA, Corp	100.00%
30	Neocom, S.A.	100.00%
31	Ncaz Mexico, S.A. DE C.V.	100.00%
32	MagicTel Solutions Private Limited (Associate)	25.00%
33	Yamuna Electronics Manufacturing Cluster Private Limited (YEMCPL) (Joint Venture)	45.33%
34	Lava employee welfare trust (Controlled Interest)	-

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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