

## Micromax Informatics Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Revised from CARE BBB-; Negative and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	183.11	CARE A4+; ISSUER NOT COOPERATING*	Revised from CARE A3 and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Micromax Informatics Limited (MMIL) to monitor the ratings vide e-mail communications dated October 05, 2023, March 14, 2024, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The ratings on MMIL's bank facilities will now be denoted as **CARE BB+; Stable; ISSUER NOT COOPERATING/ CARE A4+; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The ratings have been revised on account of continued weak operational performance marked by lower than envisaged growth in scale and profitability amidst highly competitive Indian mobile handset industry leading to sequential decline in sales volume over the past few years. The ratings are further constrained by working capital intensive nature of business, reliance on third-party suppliers for products/services and exposure to foreign exchange fluctuation risks. However, the ratings derive strength from the extensive experience of the promoters, wide distribution network, established brand name and low overall gearing ratio with comfortable financial risk profile.

**Analytical approach:** Standalone

**Outlook:** Stable

### Detailed description of the key rating drivers:

At the time of last rating on February 28, 2023, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies).

#### Key weaknesses

##### Continued weak operational performance

The total operating income (TOI) of MMIL declined further by ~55% y-o-y from Rs 562.85 crore in FY22 to Rs 255.59 crore in FY23. The continued weak operational performance is mainly on account of increase in competition which has resulted into loss of market share of MMIL over the years. The decline is witnessed by lower volumes and realisation per unit in all the segments namely smart phones, feature phones and LED/ consumer electronics and accessories. Due to decline in the TOI from past four fiscals including FY23, the company has been continuously reported losses at operational level since FY19 due to non-recoverability of fixed overheads and increase in cost of traded goods.

##### Working capital intensive nature of operations

As on March 31, 2023, the operating cycle of MMIL moderated marginally to 97 days (PY: 81 days) on account of increase in average collection period to 192 days (PY: 175 days). During FY22, the company has shifted its operations to 100% cash and carry model and is also gradually receiving its funds from one of its debtors namely Chhattisgarh government. There is a tri-party agreement between Chhattisgarh government (CG), Reliance Jio (RJ) and Micromax for distributing 50 lakh smartphones to women and students of the state. The company sold chips to CG (debtor) and procured smart phones from Reliance Jio (creditor). As per the agreement, an escrow account has been set up wherein Reliance directly gets paid only after the collection is deposited by CG in the escrow account and hence the chances of cash flow mismatch are remote.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Highly competitive Indian handset industry

The Indian mobile handset industry is marked by high degree of competition with the market being highly price sensitive and value driven. The industry is fragmented with both domestic and foreign players, which has led to stiff price competition. Given the huge opportunity in smart phones and low entry barriers, many new players have entered the industry. Aggressive online sales recorded by players and stiff competition faced by domestic players has substantially changed the market share picture in the industry. The sector is also exposed to Intellectual Property (IP) challenges raising the chances of infringement and IP conflicts. In order to diversify, MMIL also derives modest revenue by providing the services of providing space for pre-embedding and activation of Value-Added Services (VAS) applications on the handsets and tablets sold by it. Further, MMIL has also diversified into consumer electronics including LED TV which it has been selling in the domestic markets, though, the company is not able to gain its loss market share over the years.

### Reliance on third-party suppliers for product

MMIL does not have its own manufacturing plant. The company procures most of its products including mobile handsets, data cards, tablets, LED TVs etc. from Bhagwati Products Limited. The company has entered into agreements with Original Equipment Manufacturers (OEMs) for the procurement of components for its products such as Samsung for memory card, etc. The R&D team of the company provides the design inputs to OEMs. It relies on suppliers to manage the supply chain and ensure timely delivery of products while the company's in-house logistics department monitors them on a real-time basis, thereby exposing MMIL to ensuing risk emanating from the dependence on third-party suppliers.

### Susceptibility to foreign exchange fluctuation risk

MMIL meets most of its requirement for purchases from Bhagwati Products Limited while the remaining requirement is met through direct imports which remains unhedged as company does not have any hedging policy in place. Thus, the company remains susceptible to fluctuation in foreign exchange. During FY22, the company reported foreign exchange loss of Rs. 1.40 crore on foreign currency transactions (PY: Gain of Rs. 3.66 crore).

### Key strengths

#### Experienced promoter

The promoters of MMIL have an engineering background with an average experience of more than 10 years each in the information technology and telecommunications industry. Mr. Vikas Jain (Director) has done his Masters in Mechanical Designs from Gannon University (USA), he has more than 15 years of international experience. The board is supported by well qualified and experienced management team.

#### Wide distribution network and established brand name

MMIL has a well-established distribution and support-service network with 585 distributors, 10,314 retailers and 785 services touch points as on Dec 31, 2022, spread across various cities and towns including Tier 2 and Tier 3 towns of the country. The company has shifted to 2-tier distribution model, which has better reach and penetration for feature phone segment. It does real time monitoring of handsets from 'import till activation' stage which provides necessary data to analyse the sales pattern and provides better control over inventory. During FY22 (refers to the period from April 1 to March 31), the top 10 customers of the company contributed to ~34% (PY: ~24%) of the total revenue. The company is revamping its distribution network resulted into further reduction in number of distributors, retailers and service touch points which remains a key monitorable.

### Financial risk profile marked by low gearing

The financial risk profile of the company is characterized by low overall gearing and comfortable debt coverage indicators. As on March 31, 2023, the overall gearing of the company stood comfortable at 0.01x (PY: 0.04x). Though, due to continued operational losses, company's debt coverage indicators remained negative. The debt profile of the company comprises of non-fund based working capital limits which are fully backed by fixed deposits marked under lien by the lenders.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Speciality Retail

MMIL incorporated in March 2000, was promoted by first generation entrepreneurs, namely Mr. Rajesh Agarwal, Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain, having background in engineering, IT, and telecommunications industry. The company was initially in business of manufacturing of fixed wireless terminals and phones. From January 2008, the company began the business of trading and marketing of mobile handsets, tablets, accessories, data cards etc. under the brand name of 'Micromax'. Later MMIL also added LED TVs, computer monitors etc. in its product portfolio.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	562.85	255.59
PBILDT	-78.44	-77.53
PAT	50.18	110.95
Overall gearing (times)	0.04	0.01
Interest coverage (times)	-42.65	-54.22

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

### Status of non-cooperation with previous CRA:

Acuite (SMERA) has continued the ratings assigned to the bank facilities of Micromax Informatics Limited to the "Issuer Not Cooperating" category vide press release dated January 05, 2023, on account of its inability to carryout review in the absence of requisite information from the company.

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based-Short Term	-	-	-	-	183.11	CARE A4+; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**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 2023-2024	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
1	Non-fund-based-Short Term	ST	183.11	CARE A4+; ISSUER NOT COOPERATING *	-	1)CARE A3 (28-Feb-23)	1)CARE A3 (28-Feb-22)	1)CARE A3 (29-Jan-21)  2)CARE A4+; ISSUER NOT COOPERATING * (06-Nov-20)  3)CARE A3; ISSUER NOT COOPERATING * (07-May-20)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING *	-	1)CARE BBB-; Negative (28-Feb-23)	1)CARE BBB-; Stable (28-Feb-22)	1)CARE BBB-; Stable (29-Jan-21)  2)CARE BB+; Stable; ISSUER NOT COOPERATING * (06-Nov-20)  3)CARE BBB-; Negative; ISSUER NOT COOPERATING * (07-May-20)

\*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of 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	Non-fund-based-Short Term	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**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](mailto:care@careedge.in) for any clarifications.

### Contact us

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### About us:

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### Disclaimer:

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