

Future Mobile LLP

September 5, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|---------------------------|-------------------------------|---------------------|---------------|
| Long Term Bank Facilities | 79.97 (Reduced from 82.00) | CARE BB; Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Future Mobile LLP (FMLLP) continues to remain constrained by its low profitability margins, weak financial risk profile as marked by leveraged capital structure and modest debt coverage indicators. Further, the rating continues to remain constrained by customer concentration risk, constitution of the entity being a partnership firm and its presence in a highly fragmented and competitive industry.

The rating, however, continues to draw comfort from experienced partners coupled with long track record of operations, growing scale of operations on the back of increase in sales volume and addition in the distributorship of new brands over the past 3 fiscals ending FY24 (refers to the period April 1 to March 31) and low operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations as marked by total operating income of above Rs.910.00 crore.
- Improvement in profitability margins as marked by PBILDT margin above 2.80% on sustained basis.

Negative factors

- Any significant deterioration in the capital structure of the firm as marked by overall gearing ratio of above 3.00x.
- Deterioration in profitability margins as marked by PBILDT margin below 2.00% on sustained basis.
- Elongation in the operating cycle of the firm beyond 40 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that FMLLP will continue to benefit from the promoter's extensive experience along with its established presence in consumer electronics industry.

Detailed description of the key rating drivers:

Key weaknesses

Low profitability margins: The profitability margins of the firm have been historically on the lower side during the past two financial years (FY23-FY24) due to inherent nature of the distribution business. The products being traded from limited established brands with limited value addition given the highly competitive nature of the industry also constrain the profitability. Moreover, the firm has limited pricing flexibility for its final products as the prices are fixed by the manufacturer along with the dealer discounts to grow volumes also reduces profitability. Further, the PBILDT margin of the firm declined and stood at 0.99% in FY24 as against 2.38% in FY23 primarily on account of higher purchase costs and discounts provided to the customers in order to scale up its scale of operations. Further, the PAT margin also declined and stood at 0.37% in FY24 as against 1.38% in FY23 backed by declined PBILDT level.

Leveraged capital structure and modest debt coverage indicators: The capital structure of the firm stood leveraged as on the past three balance sheet dates ending March 31, 2022 to March 31, 2024 on account of higher reliance on external borrowings to fund the incremental working capital requirements of business against the partner's net worth base. The overall gearing ratio stood at 2.99x as on March 31, 2024 (prov.) showing deterioration from 2.03x as on March 31, 2023 mainly on account of higher utilization of working capital borrowings as on balance sheet date to support the growing scale of operations. Further, the capital structure is expected to remain leveraged as envisage in the near to medium term due to high debt levels. Further, high working capital requirements of the firm leads to high interest cost. Thus, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA continue to remain modest at 2.41x and 12.89x respectively, in FY24 (prov.) as against 3.23x and 5.26x respectively in FY23. The deterioration is on account of increase in interest cost owing to higher utilization of its working capital borrowings during the year to support the growing scale of operations.

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

Customer concentration risk: PRI sell its products to various customers through online and offline channel both. However, majority of sales are driven by few customers with top 6 customers' accounts for nearly 86% share of TOI in FY24 (P.Y: 93%). The top 2 customers viz. Flipkart India Private Limited and Appario Retail Private Limited constituted around more than 70% share of TOI for past two fiscals ending FY24. This exposes the firm towards customer concentration risk. Any change in procurement policy of this customer may adversely impact the business of the firm. This also exposes the firm's revenue growth and profitability to its customer's future growth plans. However, FM LLP's business risk profile continues to be supported by healthy association developed with its customers over the years; thus, the customer concentration risk has been mitigated to a large extent.

Constitution of the entity being a partnership firm: FM LLP's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Highly fragmented and competitive industry: FM LLP operates in a highly fragmented and competitive nature of industry with a considerable volume share enjoyed by many small unorganised players and continuous expansion undertaken by a few large regional players. The new age of e-commerce in India is defining the new trend for wholesale trading and is transforming the way of business operation with technology adoption and change in consumer behaviour. FM LLP has also grabbed these opportunities and has associated itself with well-known e-commerce companies to cater to the changing business needs. However, the trading business segment is highly competitive with most of the players supplying mobiles and electronic products of various other established brands in the same category through E-commerce platform only. Further, it also faces competition from local exclusive players as well as multi brand outlets operating through offline channels. Low entry barriers, presence of innumerable unorganised players in the industry and low pricing power available to the distributors makes the industry highly lucrative and competitive.

Key strengths

Experienced partners coupled with long track record of operations: Future Mobile LLP is a family run business. The firm is currently being managed by Mr. Kushagra Agarwal and Mrs. Neha Agarwal. Mr. Kushagra Agarwal has done Bachelor of Engineering (B.E.) and holds experience of around two decades in the consumer electronics trading business and looks after the overall operations of the firm. He is well supported by his wife; Mrs. Neha Agarwal in managing day-to-day operations of the firm. Further, the partners are also assisted by a team of qualified managerial personnel having relevant experience in their respective fields. The firm is having a considerable track record in this business which has resulted in establishing long term relationships with both suppliers and customers over the years.

Growing scale of operations: FM LLP's scale of operations has grown at compounded annual growth rate (CAGR) of ~134.26% over the past 3 fiscals ending FY24. The firm has reported total operating income (TOI) of Rs.1472.12 crore and gross cash accruals (GCA) of Rs.6.05 crore respectively, during FY24 (FY refers to the period April 1 to March 31; based on provisional results) as against Rs.452.42 crore and Rs.6.93 crore respectively, during FY23. The increase in TOI is on the back of increase in sales volume of Oppo smart phones, mobile gadgets and accessories along with the addition in the distributorship of new brands such as "Techno Mobile", "Ultimus" Laptops and "Orient" fans. Further, the firm has achieved total operating income of ~Rs.376.00 crore during 5MFY25 (refers to the period from April 1, 2024 to August 31, 2024; based on provisional results). However, it is expected to achieve a turnover of ~Rs.860.00 crore for FY25 since, the firm is focusing to decrease the proportion of revenue generation from Oppo brand wherein; the firm is getting minimal margins on the products sold consequently, resulting into high working capital requirements. Simultaneously, it will try to increase the proportion of revenue generation in total sales through e-commerce marketplace platform wherein; the firm will fetch better profitability margins in the range of ~1-2%; which used to be negligible while selling directly to E-commerce platform.

Low operating cycle: The operating cycle of the firm stood low at 16 days for FY24. FM LLP is required to maintain adequate inventory of traded goods of wide product portfolio to cater the immediate demand of the customers, resulting in an average inventory holding period of around 6 days during FY24. Further, being in highly competitive nature of industry, the firm normally extends credit period of up to 30-40 days to its customers. Furthermore, from reputed brands, the procurement is done on 100% advance basis while from other traders/distributors the firm receives an average credit period of around a month. Thus, the average utilization of working capital limits remained around 70% for the past 12 months ended July, 2024.

Liquidity: Stretched

The liquidity position of the firm remained stretched characterized by negative cash flow from operations which led to moderately high utilization of its working capital limits which remained almost 70% utilized and it used to remain fully utilized during the peak season (festive season, promotional season, etc.) for the past 12 month's period ending July, 2024. Further the firm has negligible free cash & bank balances which stood at Rs.0.02 crore as on March 31, 2024. However, the firm has moderate accruals vis-à-vis repayment obligations. The firm has reported net cash accruals (NCA) to the extent of Rs.6.05 crore during FY24 and is expected to generate envisage GCA of Rs.5.52 crore for FY25 against scheduled repayment obligations of around Rs.2.68 crore in same year. Further, the firm does not have any significant capex plan in the near term.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

About the company and industry

Industry classification

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

New Delhi (Delhi) based, Future Mobile LLP (FM LLP) was established in September, 2017 as a limited liability partnership firm. The firm is currently managed by Mr. Kushagra Agarwal and Ms. Neha Agarwal. The firm is an authorized distributor of mobile phones, mobile gadgets & accessories, laptops, etc. for the reputed brands such as "OPPO Mobiles India Private Limited", "ITEL Mobile", "Tecno Mobile" and "Ultimus Laptops" and other electronic products and appliances such as vacuum cleaner, water purifier, air purifier, fans, etc. among others for "Eureka Forbes Limited" and "Orient Electric Limited" on PAN India basis. The firm used to sell all its products majorly ~90% in FY24 in E-commerce platform through various online channels i.e., Flipkart India Private Limited, Appario Retail Private Limited, etc. The firm is also engaged in the trading of smart phones and tablets (~10% in FY24) through offline channel to different traders/distributors spread across PAN India. FM LLP operates its offices in seven locations based out in Delhi, Gurugram, Bengaluru, Mumbai, Kolkata, Chennai and Hyderabad. In FY25, the firm has got an authorized distributorship of "Supertron Electronics Private Limited" for the sale of "Lenovo" brand laptops, "Versuni India Home Solutions Limited (formerly known as Philips Domestic Appliances India Limited" for the sale of home appliances such as mixer grinder, toaster, blender, air fryer, sandwich maker, iron, vacuum cleaner, etc. among others and also of "Lava" Mobiles on PAN India basis through online channel only.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (Prov.) | 5MFY25 (Prov.)* |
|----------------------------|--------------------|------------------------|-----------------|
| Total operating income | 452.42 | 1,472.12 | 376.00 |
| PBILDT | 10.79 | 14.51 | NA |
| PAT | 6.25 | 5.41 | NA |
| Overall gearing (times) | 2.03 | 2.99 | NA |
| Interest coverage (times) | 3.23 | 2.41 | NA |

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

*refers to the period from April 1, 2024 to August 31, 2024.

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 (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Term Loan | | - | - | October, 2026 | 5.97 | CARE BB; Stable |
| Fund-based - LT-Working Capital Limits | | - | - | - | 74.00 | CARE BB; Stable |

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 2024-2025 | 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 |
| 1 | Fund-based - LT-Working Capital Limits | LT | 74.00 | CARE BB; Stable | - | 1)CARE BB; Stable (08-Aug-23) | - | - |
| 2 | Fund-based - LT-Term Loan | LT | 5.97 | CARE BB; Stable | - | 1)CARE BB; Stable (08-Aug-23) | - | - |

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instrument/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT-Working Capital Limits | Simple |

Annexure-5: Lender detailsTo 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 for any clarifications.

Contact us

| | |
|---|--|
| Media Contact Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Name: Ankur Sachdeva Senior Director CARE Ratings Limited Phone: +91-22-6754 3444 E-mail: ankur.sachdeva@careedge.in | Analytical Contacts Name: Sajan Goyal Director CARE Ratings Limited Phone: +91- 120-445 2017 E-mail: sajan.goyal@careedge.in Name: Sachin Mathur Associate Director CARE Ratings Limited Phone: +91- 120-445 2054 E-mail: sachin.mathur@careedge.in Name: Aashu Singh Lead Analyst CARE Ratings Limited E-mail: aashu.singh@careedge.in |
|---|--|

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in