

Celkon Impex Private Limited

March 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	25.00 (Enhanced from 2.50)	CARE BBB-;Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB (Triple B)
Short-term Bank Facilities	107.00 (Reduced from 159)	CARE A3 (A Three)	Reaffirmed
Total Facilities	132.00 (Rupees One hundred and thirty two crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Celkon Impex Private Ltd (CIPL) takes into account decline in the total operating income and profitability margins and significant deterioration in capital structure for the year ended FY16 (refers to the period April 1 to March 31). The ratings also factor in the highly competitive nature of the industry, reliance on third party suppliers and regulatory risk, susceptibility to foreign currency fluctuation risk and high obsolescence risk associated with the mobile handset industry. The ratings, however, derive strength from experienced promoters and management, strong distribution network across India coupled with synergies from group companies engaged in mobile retailing business, comfortable working capital cycle, geographic diversification, advanced stage of debt funded capacity expansion for setting up of its own mobile handset manufacturing facility and growing demand for smart and feature phones in the country. The ability of the company to successfully commence and stabilise operations in its new unit, improve profitability margins amidst a highly competitive environment, and improving the capital structure are the key rating sensitivities.

Outlook: Negative

The negative outlook on rating reflects the expected moderation in total operating income and margins and a leveraged capital structure. The outlook may be revised to 'Stable' post commencement of new unit resulting in improvement in key financial indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: CIPL is promoted by Mr Y Guru Swamy Naidu in the year 2009. Mr Naidu is a successful entrepreneur with diversified experience of over two decades in consumer retailing/ trading business. The promoter is ably supported by a team of professionals with past experience in leading mobile handset companies such as Micromax, Spice Mobile and Complex International (Hong Kong based).

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Wide distribution network and synergies from group companies i.e. Big C and LOT: CIPL has a well-established single-layer distribution model and support-service network of 180 distributors. The Company has 22 warehouses spread across India and a mother warehouse in Hyderabad which services these warehouses. This apart the Celkon group has a presence in mobiles retailing through its group concerns Big C Mobiles Pvt Ltd (Big C) and Lot Mobiles Private Limited (LOT), Big C and Lot mobiles combined have around 225 stores.

Capacity expansion through debt funded capex; advanced stage of completion: The company's new mobile handset facility at "Sri Venkateswara Mobile and Electronics Manufacturing Hub" at Renigunta, is nearing its completion with operations expected to start from April 2017. The company has started trial runs for the same since March 09, 2017 and expects to start commercial operations from April 2017. Going forward, with this unit becoming fully operational, the company's sales and margins are expected to improve significantly.

Comfortable working capital cycle: The working capital cycle of the company remained comfortable at 25 days for FY16.

Geographical diversification: CIPL has a diversified revenue base across 25 states and 2 union territories in India. The company through its overseas associate, Cell Global Pvt Ltd. supplies the goods directly to other countries. During the year FY16, 68% of the total revenue is from the states of AP, Telangana, Karnataka, Kerala and Tamilnadu.

Growing demand prospects: Smart phones have emerged to become the biggest sales driver by volume and value sales within consumer electronics. Volume sales of mobile phones grew by 100% in 2016, driven entirely by the increase in demand for smart phones. India has recently acquired the second spot in the list of the world's largest smart phone market, posting at a healthy growth rate of 23% YoY.

Key Rating Weakness

Decline in total income and profitability during FY16: During the year FY16, CIPL's total operating income has declined by 9% to Rs.601.42 crore. Both sales volume and sales realisations declined resulting in decline in revenue. The PBILDT margin of the company has declined by 61 bps vis-à-vis FY15 in FY16 to 2.94% on account of decrease in sales realization.

Deterioration in capital structure: The capital structure of the company deteriorated significantly as on March 31, 2016. Overall gearing deteriorated mainly on account of significant increase in LC backed creditors.

Reliance on third-party suppliers for products and regulatory risk: CIPL has entered into agreements with Original Design Manufacturers (ODMs) for the manufacturing of its products. CIPL 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 CIPL to ensuing risk emanating from the dependence on third-party suppliers. The company further remains susceptible to adverse impact on its business risk profile owing to any changes in the government policies of importing countries.

Susceptibility to foreign exchange risk: Due to high dependence on imports which forms around 74% of the total purchases in FY16 (as against 86% in FY15), the company is vulnerable to foreign currency risk for its import payments.

Highly competitive Indian handset industry: 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 both domestic and foreign players competing, leading to stiff price competition. Given the huge opportunity in smart phones and low entry barriers, many new players have entered the industry.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About The Company

Celkon Impex Private Limited (CIPL) was incorporated in October 2009, by Mr Y Guru Swamy Naidu, for trading of mobile handsets under the name 'Celikon Impex Pvt Ltd'. The company underwent a change in name to Celkon Impex Pvt Ltd in November 2012. The company imports mobile phones primarily from manufacturers based in China which are manufactured according to the specifications given by CIPL's research & development team. The company has launched

around 287 models of mobile handsets under the brand name 'Celkon', of which 67 models are active as on March 10, 2017.

For FY16, the company registered total operating income of Rs.601.42 crore with PAT of Rs.10.02 crore as against total operating income of Rs.661.41 crore and PAT of Rs.13.96 crore in FY15. In H1FY17 (Un-audited), the company registered total operating income of Rs.267.00 crore with PAT of Rs.6.84 crore.

Status of non-cooperation with previous CRA: The rating of Celkon Impex Private Limited has been suspended by ICRA Limited vide its press release dated February 05, 2016 on account of non-cooperation.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Ms Radhika Ramabhadran

Tel: +91-40-6900-0512

Mobile: 8008883012

Email: radhika.ramabhadran@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	105.00	CARE A3
Term Loan-Long Term	-	-	April 2021	15.00	CARE BBB-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	-	1)CARE BBB (25-Feb-16)	1)CARE BBB (25-Feb-15)	-
2.	Non-fund-based - ST-Letter of credit	ST	105.00	CARE A3	-	1)CARE A3 (25-Feb-16)	1)CARE A3+ (25-Feb-15)	-
3.	Term Loan-Long Term	LT	15.00	CARE BBB-; Negative	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A3	-	-	-	-

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691