Optiemus Infracom Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	231.50	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Total Facilities	**231.50 (Rs. Two hundred thirty one crore and fifty lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has taken a view on the combined financial profile of the Optiemus Group of companies which include: Optiemus Infracom Limited (OIL), Optiemus Electronics Limited (OEL), MPS Telecom Retail Private Limited (MTRPL), Teleecare Network India Private Limited (TNIPL), GDN Enterprises Private Limited (GDN) and International Value Retail Private Limited (IVR). All these companies are in related businesses, and have strong business linkages and common ownership and management.

The revision in the rating assigned to the bank facilities of Optiemus Infracom Limited factors in declining trend in Optiemus Group's scale of operations during FY18 and 9MFY19 and pressure on profitability margins during 9MFY19.

The rating assigned to the bank facilities of Optiemus Infracom Limited continues to derive strength from experienced promoter and professional management team, established market position with operational synergies on account of presence in complete value chain of mobile handsets, wide distribution network and moderate financial risk profile marked by moderate capital structure and adequate liquidity. The rating favorably considers the award of Blackberry License to OIL, which is expected to be a growth driver for the company going forward.

These strengths, however, are partially offset by exposure to intense competition, risk associated with renewal of long-term contracts and lower than envisaged ramp up of Blackberry business along with significant decline in distribution business segment.

Going forward, acceptability of the Blackberry brand and achievability of envisaged volumes, improvement in profitability while maintaining the capital structure would be the key rating sensitivities.

Outlook: Negative

The revision in the rating outlook from Stable to Negative is on account CARE's belief that Optiemus Group profile may further weaken on account of declining trend in operations thereby putting pressure on the profitability margins. The outlook may be revised back to Stable, in case Optiemus as a group, is able monetize its commercial asset and is able to enhance its overall operating performance & scale of operations and profitability leading to higher than expected cash accruals leading to an overall improvement in the combined credit risk profile of the group.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and Professional Management team

Mr. Ashok Gupta, the chairman of the Optiemus has more than two decades of experience in the field of trading and mobile handsets distribution. Under his leadership the company has been engaged in the distribution of Samsung mobile phones since January 2007. Prior to this, the company, since October 2001, was engaged in the distribution of Nokia handsets. Mr. Gupta has also served as the secretary of the 'Indian Cellular Association' (ICA), an apex body representing the mobile brands in India.

Established market position and synergy from operations

The Optiemus Group over the year has established itself as a leading player in the domestic mobile handset distribution industry. The group through its various group companies has presence in the complete value chain starting from assembling, distribution and finally retail sales of mobile phones. The group is able to enjoy operational synergies as it is present across the value chain.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Moderate financial risk profile, though deterioration during 9MFY19
The financial profile of the Optiemus Group remained moderate marked by moderate capital structure and liquidity. The overall gearing of the Optiemus Group stood at 1.10x as on March 31, 2018 (PY: 1.36x) and has remained healthy during the past three years. The group had free cash balance of around Rs.50 crore as on January 31, 2019; thereby indicating adequate liquidity cushions.
The total income of the Optiemus Group has witnessed decline during past three years. The decline in the total income of the group was primarily due to fall in the revenue from its distribution business segment which included OIL (Samsung & HTC distribution). The decline in income on account of distribution of Samsung and HTC phones was marginally offset by sale of Blackberry phones during FY18. Nevertheless, the decline in total income was around 27% during FY18.
The PBILDT margin witnessed improvement during FY18 and remained at 4.32% (PY: 3.31%) primarily driven by Blackberry sales which is a higher margin business.
During 9MFY19, the group has reported total income of Rs.1229 crore and PBILDT of Rs.29.55 crore (PBILDT margin of 2.40%), thereby indicating further decline in the scale of operations for the group. The lower ramp up of Blackberry sales has impacted OIL sales. The PBILDT margin has declined from 4.32% during FY18 to 2.40% during 9MFY19 due to delayed launch of Blackberry phones which led to lower revenue as against higher promotional advertisement. The other group entities also witnessed pressure on their profitability due to decline in scale of operations leading to non-absorption of fixed cost. In order to support the operations, the promoters have infused around Rs.25 crore fund in the group as on March 25, 2019.

Wide distribution network
The Optiemus group has been engaged in the business of mobile distribution for last two decades and thus has built a wide pan-India distribution network. The Group started distribution of Nokia handsets in the Delhi General Trade market. Gradually, they moved towards the Organized trade market with Samsung. The group operates with a vast spread of 27 Regional branches, presence with close to 650 Distributors (Micro and Macro Distributors), more than 10,000 retail partners (in the general trade segment) and more than 700 service centres. Going forward, OIL plans to leverage its existing distribution network to market and distribute Blackberry devices along with in-house brands such as Zen and Kult.

Key Rating Weakness
Lower than envisaged ramp up of Blackberry business during 9MFY19
The group had envisaged significant upside from the Blackberry business segment both in terms of income and profitability. However, the actual income from Blackberry segment was lower during FY18 and the same has further halved during 9MFY19. Furthermore, due to delayed launch of couple of its handsets, there was a corresponding mismatch in the sales and associated costs leading to reduction in profitability. OIL has signed an exclusive agreement for designing, manufacturing and distribution of Blackberry Handsets in India, Sri Lanka, Nepal and Bangladesh which is expected to provide a revenue upside to the company in next couple of years. Though, the ramp up from Blackberry sales has not remained the way it was envisaged earlier.
Going forward, successful ramp up of Blackberry sales would be crucial for the company and remains to be seen.

Renewal of agreement with mobile brands would remain a concern
Optiemus group has been engaged in the distribution of Samsung handsets since January 2007. The distributorship is guided by an agreement between the two parties. On the expiry of the term a fresh agreement shall be signed between the two parties based on mutual consent. Though, over the years the dependence of the group on Samsung as a source of revenue has come down and therefore the business continuation risk is mitigated to a large extent.
Similarly, the agreement with Blackberry is a 10 year agreement (five years extendable to another five years) and its successful renewal would be crucial in future.

Exposure to intense competition in mobile phone industry
The Optiemus Group has exposed to the intense competition in the mobile handset industry. As the group has presence in manufacturing and distribution of smart and feature phones its fortunes are linked to the brands it caters. The company is currently dealing in brands such as Samsung, HTC and Zen. Going forward, with the license of Blackberry in place, the group will also be involved in designing, manufacturing and distribution of Blackberry phones in India, Sri Lanka, Nepal and Bangladesh.

Analytical approach: Combined financials of the Optiemus Group of companies which include: Optiemus Infracom Limited, Optiemus Electronics Limited, MPS Telecom Retail Private Limited, Teleecare Network India Private Limited, GDN Enterprises Private Limited and International Value Retail Private Limited. All these companies are in related businesses, and have strong business linkages and common ownership and management.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Manufacturing Companies]
[CARE's methodology for financial ratios (Non-Financial Sector)]

About the Company

Optiemus Infracom Limited (OIL) was originally incorporated in the year 1993 as Akanksha Finvest Limited (AFL) as a Non-Banking Financial Company (NBFC). The name of the merged entity was subsequently changed to the current one: Optiemus Infracom Limited in June 2011. OIL is the flagship company of the Optiemus Group and has been engaged in distribution of mobile handsets of reputed brands like Nokia and Samsung for last 25 years. OIL had started operations with distribution of Nokia handsets from 1995 till 2006. Thereafter, in 2006, the Company left Nokia to take the distribution of Samsung. OIL has also received Blackberry Brand Rights for four countries.

Brief Financials (Rs. crore) – Standalone	FY17 (A)	FY18 (A)
Total operating income	1081.51	616.10
PBILDT	61.93	73.18
PAT	9.88	24.69
Overall gearing (times)	0.95	0.89
Interest coverage (times)	5.73	11.88

A: Audited

Status of non-cooperation with previous CRA: OIL has not cooperated with CRISIL, which classified the company as issuer not cooperative through a release dated April 13, 2018. The reason provided by CRISIL is non-furnishing of information for monitoring of ratings.

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.*

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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-Term Loan	-	-	September, 2028	195.00	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	36.50	CARE BBB-; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	195.00	CARE BBB-; Negative	-	1)CARE BBB; Stable (09-Feb-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	36.50	CARE BBB-; Negative	-	1)CARE BBB; Stable (09-Feb-18)	-	-

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