December 30, 2022

Optiemus Infracom Limited: [ICRA]BBB-(Stable)/ [ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term/ Short term – Non Fund limits - Proposed	50.00	[ICRA]BBB-(Stable)/[ICRA]A3 assigned
Total	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Optiemus Infracom Limited (OIL), Optiemus Electronics Limited (OEL) and GDN Enterprises Private Limited (GDN) as OEL and GDN are 100% subsidiaries of OIL and OIL has significant operational, managerial, and financial linkages with these subsidiaries.

The rating factors in ICRA's expectation that the Optiemus Group (or Group) would maintain a comfortable financial profile reflected by low leverage owing to moderate working capital intensity and limited dependence on debt for the capex over the near to medium term. The assigned rating takes comfort from OIL's established track record in the mobile phone distribution business and the experience of the promoters in this field. ICRA also notes that the Group is shortlisted for Production Linked Incentives (PLI) schemes for mobile phones, IT hardware and telecom equipment and has also incurred sizeable capex towards the same. However, the Group currently has been able to build order book mainly in the wearables segment, which is not part of the above-mentioned scheme.

The rating is constrained by the limited track record of the Group's manufacturing revenues and the renewal risks for OEM contracts in the electronics manufacturing industry. The manufacturing business has faced significant revenue volatility in the past. Moreover, the Group's operating profile remains dependent on the market performance of its OEM principals. Also, the Group is yet to enter into offtake contracts to achieve PLI related eligible performance. The Group's margins are also constrained by the low value-added nature of its operations. However, they are expected to improve slightly as share of manufacturing operations rises.

Key rating drivers and their description

Credit strengths

Promoter's long track record in the Indian mobile handset industry – OIL has been in the mobile phone distribution business for the past 30 years and remains a preferred partner for Samsung primarily in northern India. The company primarily caters to organised retail channels, which command better margins than other offline distribution channels for mobile phones. Apart from Samsung mobiles, the company also is a key distributor for Plantronics, a US-based headset manufacturing company. OIL also has an in-house brand, 'Mo-Life', under which it sells mobile phone accessories. After the second pandemic wave, the distribution business witnessed a sharp recovery resulting in OIL's revenues reaching Rs. 439 crore and Rs. 281 crore in FY2022 and H1 FY2023 at a YoY growth of 136% and 99%, respectively. Mr. Ashok Gupta, a first-generation entrepreneur, has more than 38 years of experience in the field of trading and mobile handsets distribution and continues to oversee the day-to-day operations of the Group. He is assisted by his son, Mr. Neetesh Gupta, who oversees the operations of OEL and a set of industry professionals including Mr. A Gururaj who has considerable industry experience in mobile phone manufacturing. The Group has a strategic alliance with Wistron, which lends it technical knowhow as well as its team of professionals experienced in EMS industry.

Healthy orderbook for manufacturing revenues supported by buoyant demand outlook; strong share of business with leading players in wearable segments – The Group started its electronics manufacturing services (EMS) business under OEL in 2016 when it collaborated with Wistron Corporation, a leading global EMS player. The manufacturing business scaled rapidly till FY2019 by manufacturing mobile phones for reputed OEMs as well as for its own mobile phone brands. However, with the competition of Chinese mobile phone players, OEL's customers witnessed a loss in market share and hence OEL's revenues scaled down completely by FY2021. OEL restarted its manufacturing operations in FY2022 by entering the wearables segment after onboarding Noise, a leading player in the Indian market, with which it commands a very healthy share of business. Apart from Noise, the company onboarded multiple clients in the smartwatches, and wireless earphones categories. As a result, OEL has a healthy confirmed order book for FY2023 to the tune of ~Rs. 500 crore and the wearables segment overall has a favourable demand outlook in India. The Group is shortlisted for three PLI schemes with OEL securing the approval for mobile phones and IT hardware and GDN for telecom equipment. OEL has already incurred around 40% of the total capex outlay required under the PLI schemes; however, the Group has not acquired any major business under the PLI scheme and, hence, the Group might not be eligible for PLI incentives based on the current order book.

Limited working capital requirements owing to funding support from OEMs – OIL's distribution business has limited working capital requirements owing to a negative net working cycle and limited inventory requirements. OIL has lower debtor risk from third-party customers in the distribution business as all the third-party receivables are insured. ICRA also notes that during FY2019-FY2022, OIL witnessed significant debtor write-offs/ provisioning for the unsecured debtors as per Ind-AS requirements. However, most of these debtors have been realised later resulting in write-back of these provisions and the Group has scaled down its retail store operations in FY2022. Any similar provisioning, going forward, will be a concern, however. The EMS segment also has moderate working capital requirements as OEL procures raw material from suppliers on a back-to-back basis or through advances for the majority of the OEMs. For very few OEMs, OEL has to provide LCs and the company has sufficient sanctioned LC limits to cover the current order book. Change in working capital cycle and associated funding for new business will be remain a monitorable. The Group's financial profile is expected to be comfortable in FY2023 characterised by low gearing of 0.1-0.3 time and comfortable coverage indicators owing to limited dependence on debt for capex requirements.

Credit challenges

Renewal risks for OEM contracts; high revenue volatility witnessed in the past – Currently, OEL is involved in the manual assembly of wearables and other electronic devices for OEMs with lower value addition. As a result, the stickiness of the OEM customers in the pure assembly business is lower. The same was witnessed by OEL in the past and continues to remain a key risk for the EMS players. With the existing customers, the tenor of the agreement is not more than one year thus subject to renewal risk. Any loss of key OEM customers for OEL would remain a key monitorable. ICRA also notes that the Group is yet to enter into offtake contracts to achieve PLI related eligible performance.

Limited value added nature of operations results in low margins; expected to improve slightly, going forward – The Group earns around 3-4% operating profit margin (OPM) in the distribution owing to the trading nature of its operations. In the EMS business as well, OEL reported a thin OPM of 4% in H1 FY2023, its first year of operations, owing to initial set-up costs and the assembly nature of the operations. Scale up in volumes is expected to lead to better margins in the manufacturing segment.

Dependence on performance of principals**–** The ability to maintain healthy volumes at OEL will depend upon the performance of its OEM principals. As the electronics products such as mobile phones, and wearables typically have short product lifecycles, OEMs have to frequently upgrade the product models with new features with the objective to keep ahead of the competition and create product differentiation. As a result, OEL's business performance is directly linked to the market performance of electronics products launched by its OEMs.

Liquidity position: Adequate

The liquidity position is adequate supported by growing operational cash flows of Rs. 25-30 crore along with Rs. 30 crore of cash and bank balances as of October 2022 and an adequate buffer of 40-50% in working capital limits. There are no major long-term debt servicing requirements. Planned additional capex under PLI would be supported by the expected custom duty refunds of Rs. 90-100 crore in OIL and other Group companies.

Rating sensitivities

Positive factors – Healthy scale-up in accruals supported by new client offtake arrangements while maintaining the credit metrics can result in a rating upgrade.

Negative factors – Pressure on the ratings would arise in case of a significant decline in revenues or cash accruals owing to loss of business from key OEMs. Any significant debt-funded capital expenditure resulting in the weakening of credit metrics could result in a downward rating movement.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach-Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of OIL. The list of subsidiaries consolidated with OIL are all enlisted in Annexure-2.

Note (for analyst reference only):

About the company

Optiemus Infracom Limited (OIL), the parent company of Optiemus Group, is a public company incorporated on June 17, 1993, with a demonstrated track record in the mobile phone distribution business with reputed OEMs such as Samsung and HTC. Currently, OIL is a preferred organised retail partner for Samsung and exclusive partner for Plantronics. OIL is also engaged in the distribution of mobile accessories under the brand, Mo-Life. The company also operated retail stores under its Group companies, 'International Value Retail Private Limited' owned by Group company, Telecare Network India Pvt. Ltd (TNIPL), which the Group has scaled down in FY2022.

Optiemus Electronics Limited (OEL) was created in 2016 when OIL entered into a joint venture with Wistron Corporation, one of the leading global electronic manufacturing services (EMS) players, to set up mobile phone manufacturing in India. The shareholding of OIL was 80.09% whereas the remaining 19.91% was with Wistron Corporation. In 2021, OEL became 100% wholly subsidiary of OIL when OIL bought back the remaining stake. OEL started manufacturing wearables such as smartwatches and hearables such as Twin Wireless Stereo (TWS) for reputed OEMs such as Noise. OIL has another wholly-owned manufacturing subsidiary, GDN Enterprises Private Limited, which was created in 2014 for assembling operations for its own feature phone brand. The Group has been shortlisted for three PLI schemes comprising Mobile Phones, IT hardware and telecom equipment. The Group participated in mobile phone and IT hardware PLI schemes through OEL and in telecom equipment PLI scheme through GDN.

Key financial indicators (audited)

OIL Consolidated	FY2021	FY2022	H1 FY2023
Operating income	185.6	471.6	519.7
PAT	86.5	-0.0	13.5
OPBDIT/OI*	-50.6%	-3.9%	4.3%
PAT/OI	46.6%	0.0%	2.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	1.3
Total debt/OPBDIT (times)	-1.1	-2.4	2.8
Interest coverage (times)	-14.7	-3.6	10.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *includes related debtor provisions and write-offs*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

ICRA notes that there were multiple audit remarks made in OIL and OEL's past audit reports. ICRA received clarification from management as well as auditors that the issues were technical in nature and do not indicate any significant governance or internal control-related lapses. ICRA also notes that the Group has taken mitigation steps such as strengthening of oversight in compliance and financial reporting.

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 30, 2022	-	-	-
1	**Non-Fund based limits - Proposed**	Long term/ Short term	50.00	--	**[ICRA]BBB- (Stable) / [ICRA]A3**	-	-	-

&: ***Rating Watch with Developing Implications***

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/ Short term – Non-Fund based limits - Proposed	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-Fund based limits - Proposed**	NA	NA	NA	50.00	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	OIL's Ownership	Consolidation Approach
Opteimus Infracom Limited (OIL)	100.00% (rated entity)	Full Consolidation
Optiemus Electronics Limited (OEL)	100.00%	Full Consolidation
GDN Enterprises Private Limited	100.00%	Full Consolidation
Teleecare Network India Private Limited	46.22%	Equity Approach

Source: OIL annual report
Note: ICRA has taken a consolidated view of the parent (OIL), its subsidiaries and associates while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

Dishant Mahajan
+91 124 4545812
dishant.mahajan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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