Jaina Marketing & Associates

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based	125.0	120.0	[ICRA]A- (Stable); Reaffirmed
Long term- Unallocated	75.0	80.0	[ICRA]A- (Stable); Reaffirmed
Short term non-fund based	628.0	508.0	[ICRA]A2+; Reaffirmed
Short term- Unallocated	72.0	192.0	[ICRA]A2+; Reaffirmed
Total	**900.0**	**900.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) for Rs. 200.0 crore long term bank facilities and short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 700.0-crore[1] short term bank facilities of Jaina Marketing & Associates (JMA)[2]. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of Jaina's ratings takes into account the improvement in the company's consolidated[3] operating profitability to 5.25% (provisional) in FY2018 from 1.55% in FY2017 and increase in consolidated OPBIDTA to Rs 93.20 crore (provisional) from Rs 35.64 crore during the same period on the back of 35% growth in sales of Karbonn phones in FY2018, optimisation of the company's selling and distribution expenses, and rationalisation of other overhead expenses. Further, Jaina has closed its agreement with Panasonic, which adversely impacted its accruals in FY2017. However, the closure of agreement led to a drop in turnover to Rs. 1,774.74 crore in FY2018 from Rs. 2,306.54 crore in FY2017. The increase in accruals also led to better debt coverage indicators, with an increase in interest coverage to 4.84 times (provisional) from 1.31 times and improvement in Total Debt/OPBIDTA to 1.80 times (provisional) from 3.79 times during this period. The ratings continue to derive comfort from Jaina's experienced promoters, its established Karbonn brand in the Indian mobile handset industry, strong distribution network, and comfortable debt coverage indicators. Jaina is also involved in the trading and distribution of mobile handsets of other brands like Motorola to supplement its revenue stream. The ratings continue to favourably factor in the growth opportunities in the Indian mobile market owing to an increase in subscriber base and growth in the mobile handset industry, along with large handset replacement market and further scope of wireless penetration in rural areas.

The ratings are constrained on account of withdrawals by promoters from the partnership firm (JMA), leading to a decline in its liquidity position. Nonetheless, a part of the withdrawals has been infused in JIPL, reducing the impact on the consolidated numbers. The ratings continue to be affected by intense competition in the mobile handset market post the entry of Chinese handset companies and launch of Jio phones. The ratings are also constrained by the rise in working

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[3] *While reaffirming the rating, ICRA has taken a consolidated view of Jaina Marketing & Associates (JMA), Jaina India Private Limited (JIPL), and Jaina Mobile India Private Limited (JMIPL)*

capital intensity to 14% (provisional) in FY2018 from 8% in FY2017 due to elevated inventory holdings in FY2018. The company has now ventured into Government contracts, which may elongate the receivable cycle and lead to further increase in working capital intensity going forward. Further, the ratings are impacted by exposure to foreign exchange risks given the Group's significant reliance on imports, the rapidly changing customer preferences, and risk of technological obsolescence. ICRA has noted that the promoter group of Jaina proposes to enter into a brand license agreement with Gionee India, which is expected to improve the Group's market share in the mid-range handset segment, which would entail payments to Gionee India by way of royalty. ICRA would continue to monitor the developments closely for any impact on the credit risk profile of the Group companies.

ICRA has also noted that the Group has plans for backward integration through another joint venture. Currently, the Group imports semi knocked-down units (SKDs), wherein most parts have a custom duty of 15%. However, the Group, through collaboration, plans to start manufacturing components such as chargers, LCDs, and assembly of printed circuit boards (PCBs) of handsets to improve its competitive position in the market. The plans are in initial stages and ICRA will continue to monitor the impact of the same on credit risk profile of the Group.

Going forward, the company's ability to grow the market share by keeping pace with changing consumer preferences and technology, movement in profitability, and working capital intensity would be the key rating sensitivities. Further, the extent of capital expenditure/investments and its impact on the company's capital structure and debt coverage indicators would remain a key rating monitorable.

Outlook: Stable

ICRA believes that Jaina will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive in case of substantial improvement in market share, growth in revenues and profitability, as well as maintenance of working capital intensity and leverage. The outlook may be revised to Negative in case of pressure on cash flows, increase in debt, decline in market share and turnover, or further stretch in the working capital cycle.

Key rating drivers

Credit strengths

Long and established track record of promoters in Indian mobile industry - Mr. Pardeep Jain, the Managing Director of the Jaina Group and Karbonn founded Jaina Group – a distribution house – in 1995. Mr. Jain has been involved in the mobile telephony distribution business in India for over 18 years. Karbonn was established in March 2009 in association with United Telelinks Limited, a Bangalore-based company

Strong distribution and supply chain network and after-sales service - The Jaina Group has a strong distribution and supply chain network with more than 500 distributors, 17,000 retailers, and 550 service centres for providing after-sales service. However, there has been some decline in the number of retailers and centres for after-sales service due to rationalisation post termination of contract with Panasonic.

Improvement in provisional accruals in FY2018 - The company's consolidated operating profitability improved to 5.25% (provisional) in FY2018 from 1.55% in FY2017 and consolidated OPBIDTA increased to Rs. 93.20 crore (provisional) from Rs. 35.64 crore during the same period on the back of a 35% growth in sales of Karbonn phones in FY2018, optimisation of the company's selling and distribution expenses, rationalisation of other overhead expenses and closure of agreement with Panasonic, which had adversely impacted accruals in FY2017 on account of lower-than-expected volumes and stringent brand licensing conditions. However, the closure of agreement led to drop in turnover to Rs. 1,774.74 crore (provisional) in FY2018 from Rs. 2,306.54 crore in FY2017.

Healthy financial risk profile with moderate leverage and comfortable debt coverage indicators - The Group has limited long-term external debt of Rs. 3.16 crore in relation to car loans. Debt coverage indicators remain comfortable – DSCR was 4.44 times, interest cover was 4.84 times, and TD/OPBDITA of 1.80 times in FY2018, on a provisional basis.

Credit challenges

Reduction in cash balance due to withdrawals by promoters - The promoters have made withdrawals from the partnership firm (Jaina Marketing and Associates; JMA) over the years. However, part of the withdrawals have been infused in Jaina India Private Limited (JIPL), reducing the impact on consolidated figures to that extent.

Intense competition in the mobile handset market - There is currently intense competition in the mobile handset segment from established home-grown brands, including Reliance Jio. Also, there is an influx of Chinese brands, which have been able to gain significant market share on the back of aggressive discounts and schemes, given that the market is highly price sensitive and value driven.

Increase in working capital intensity in FY2018 - Due to increase in inventory holding period, the working capital intensity of the company increased to 14% (provisional) in FY2018 from 8% in FY2017. Further, the company has now ventured into Government contracts, which may elongate the receivable cycle and lead to further increase in working capital intensity going forward.

Vulnerability of profitability to any adverse fluctuation in exchange rates - The company imports SKDs and sells the same to associate entities that manufacture the handsets and sell the finished products to Jaina, which distributes them further in North and West India. The company is thus exposed to forex risk as it does not hedge its payments. Volatility in exchange rates would adversely impact the operating margins of the company.

Analytical approach: From Q4 FY2018, the company started shifting business from JMA to JIPL (incorporated in 2014). The entire business is expected to be shifted to JIPL within FY2019. While reaffirming the rating, ICRA has taken a consolidated view of Jaina Marketing & Associates (JMA), Jaina India Private Limited (JIPL), and Jaina Mobile India Private Limited (JMIPL), given the impending transfer of business within Group entities and strong operational, financial, and management linkages among the three entities.

In the rationale, "Jaina" refers to the consolidated figures of all three of the entities mentioned above.

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

Jaina Marketing & Associates is a partnership concern established in 2000 and involved in the business of import, export and distribution of cellular phones and other electronic items, with a strong distribution network and expertise in supply chain management across India. It was associated with recognised international brands like Samsung, Philips, Siemens, Airtel, Panasonic, Canon, Motorola, HTC etc. in the past.

From Q4 FY2018, the company started shifting business from Jaina Marketing and Associates to Jaina India Private Limited, which was incorporated in 2014. The entire business is expected to be shifted to JIPL going forward.

Jaina Mobile India Private Limited (JMIPL) is a private limited concern established in 2001 and involved in the business of import, export and distribution of cellular phones and other electronic items.

In 2009, the Jaina Group launched mobiles in India in collaboration with Bangalore-based United Telelinks (Bangalore) Limited, under its own brand name Karbonn, wherein it has entered into product development agreement with manufacturers in China and Taiwan. As per the terms of the agreement with UTBL, Jaina will distribute Karbonn mobile phones in northern and western India and UTBL will distribute the phones in southern and eastern Indian markets. The entire process chain, including procurement, marketing, brand management, promotion, supply chain management and after sales service, is being jointly taken care of by UTBL and Jaina.

In FY2018, on a provisional basis, JMA reported a net profit of Rs. 51.07 crore on an operating income of Rs. 2127.45 crore, as compared to a net profit of Rs. 23.76 crore on an operating income of Rs. 3447.46 crore in the previous year.

Key financial indicators - JMA

	FY2017	FY2018 (Prov)
Operating Income (Rs. crore)	3,447.46	2,127.45
PAT (Rs. crore)	23.76	51.07
OPBDIT/ OI (%)	1.96%	2.31%
RoCE (%)	26.93%	29.43%
Total Debt/TNW (times)	0.56	0.95
Total Debt/OPBDIT (times)	1.42	1.94
Interest coverage (times)	2.69	2.88
NWC/OI (%)	4%	6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					July 2018		-	January 2017	April 2016	October 2015
1	Long term fund based	Long Term	120.0	-	**[ICRA]A- (Stable)**		-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A (Stable)**
2	Long term-Unallocated	Long Term	80.0	-	**[ICRA]A- (Stable)**		-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A (Stable)**
3	Short term non-fund based	Short Term	508.0	-	**[ICRA]A2+**		-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**
4	Short term-Unallocated	Short Term	192.0	-	**[ICRA]A2+**		-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund based	NA	NA	-	120.0	[ICRA]A- (Stable)
NA	Long term-Unallocated	NA	NA	-	80.0	[ICRA]A- (Stable)
NA	Short term non-fund based	NA	NA	-	508.0	[ICRA]A2+
NA	Short term-Unallocated	NA	NA	-	192.0	[ICRA]A2+

Source: Jaina Marketing & Associates

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