

March 28, 2024

Optimus Infracom Limited: Ratings reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Optimus Infracom Limited (OIL), Optimus Electronics Limited (OEL) and GDN Enterprises Private Limited (GDN), as OEL and GDN are 100% subsidiaries of OIL, sharing significant operational, managerial, and financial linkages. Further, ICRA has consolidated the projected financials of the newly formed Bharat Innovative Glass Technologies Private Limited (BigTech), which is OIL's 70% subsidiary. BigTech is planning to set up a cover glass (for electronic devices including smartphones) manufacturing project in the near to medium term.

The reaffirmed ratings factor in ICRA's expectation that the Optimus Group (or the Group) would continue to benefit from the healthy demand outlook for mobile phones, wearables, laptops, routers and others, as well as the promoters' experience and track record in mobile phone distribution and assembly. Further, the ratings factor in the low working capital requirements in the existing business.

The ratings are, however, constrained by the high volatility of the business due to the absence of any long-term offtake contracts in the electronic manufacturing services (EMS) or distribution business. Consequently, the Group remains dependent on the market performance of its original equipment manufacturers (OEMs) and is exposed to competition from other EMS players. ICRA, however, takes comfort from the current healthy order book in OEL and GDN, which lends healthy revenue visibility for the next fiscal. The company's margins are also constrained by the low value-added nature of its operations, although earnings have improved from the EMS segment due to enhanced volumes and a partial shift to job-work arrangements for some of the business.

ICRA notes that OIL has plans to set up a manufacturing plant for cover glass manufacturing, with a leading global glass major, Corning. OIL entered into a 70: 30 joint venture (JV) namely BigTech with Corning Inc., USA. The project cost stands at ~Rs 1,003 crore and is expected to be implemented in two phases. The company is also expected to earn healthy incentives on the project investments after the implementation of the initial phase. As of now, the project is in the initial stages, awaiting land acquisition and key approvals. This exposes the company to various approvals, executions, offtake arrangements and funding risks. ICRA will continue to monitor the impact of such risks, if any. However, the association with Corning, a leading player in this space, is expected to provide significant benefits to the Group in terms of technical expertise and clientele.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from healthy assembly capacities in the EMS business and the buoyant demand outlook.

Key rating drivers and their description

Credit strengths

Promoter's long track record in the Indian mobile handset industry – OIL has been in the electronic device distribution business for the past 30 years. At present, the company primarily distributes various electronics and IT-related devices of 'Plantronics', a US-based manufacturing company. OIL also has an in-house brand, 'Mo-Life', which sells mobile phone accessories. In addition to distribution, the group generates revenue by assembling electronic devices, including hearables/wearables and serves various OEMs in the domestic market through OEL and GDN. Over the years, the company has built sizeable assembly capacities across three plants, which is housed within OEL and GDN. Mr. Ashok Gupta, a first-generation entrepreneur with four decades of experience in trading and mobile handset distribution, 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 GDN.

Healthy demand outlook for mobile, laptop, hearable, wearable etc – The Group launched its electronics manufacturing services (EMS) business through OEL. However, due to increasing competition from Chinese mobile phone players, OEL's end users witnessed a loss in market share, leading to a complete scale-down of OEL's revenues by FY2021. In FY2022, OEL resumed its manufacturing operations by targeting the wearables and hearable segment after onboarding Noise, a leading player in the Indian market. Besides Noise, the company onboarded multiple clients for smartwatches, laptops, tablets, mobiles and others. As a result, OEL and GDN boast a healthy confirmed order book of ~Rs. 1,400 crore for FY2025. The company should benefit from the favourable demand outlook with OEL's sizeable assembly capacities built over the last few years.

Limited working capital requirements – The Group's existing business has limited working capital requirements with a negative net working cycle for distribution and moderate needs for the EMS segment, including back-to-back arrangements for several OEMs. OEL has been receiving advances from customers, which also provide working capital support. During FY2019-FY2023, OIL witnessed significant debtor write-offs/ provisioning for the unsecured debtors as per Ind-AS requirements. However, further write-offs are not expected, and a majority of the previously written-off debts have since been recovered, resulting in a reversal of those provisions.

Credit challenges

Revenue volatility in absence of long-term contracts with OEMs, dependence on performance of OEMs – As the tenor of the agreement is not more than one year for existing customers, the contracts are subject to renewal risk. Any loss of key OEM customers for OEL would remain a key monitorable. Further, in addition to competitive risks from other vendors, the performance of OEMs also remains crucial for the business prospects of vendors/distributors such as OIL. ICRA notes that the Group is yet to secure offtake contracts to qualify for PLI-related benefits.

Limited value-added nature of operations results in low margins in an intensely competitive industry – The EMS business is intensely competitive due to the presence of numerous small players. The intense competition and low-value addition keep the revenue and profitability margin under check for the players. However, the Group's margins have improved in the current fiscal due to a shift in some OEMs' business towards job work models, as well as an increase in the contribution of higher-margin sales in the distribution segment. The Group's financial profile is expected to be comfortable in FY2024, characterised by low gearing of 0.3-0.5 times and comfortable coverage indicators owing to limited debt dependence for the existing business and improved earnings in the current fiscal.

Significant capex plan currently in initial stages and several milestones to be achieved before starting project execution – At present, the Group's existing business has limited capex requirements. The company plans to set up a cover glass manufacturing plant, likely in Tamil Nadu, under a 70: 30 JV with Corning Inc, US. The project is expected to be funded by a 70: 30 debt equity ratio. However, the sanction and terms of debt are in the process to be finalised, while equity mobilisation is also pending. The project is in initial stages, awaiting land acquisition and pending key approvals, following which the execution of Phase 1 will start. At the current stage, the project encounters risks related to approvals, execution and funding. ICRA will continue to monitor these factors and their impact on the company's profile and credit metrics. However, ICRA takes comfort

from the association with Corning, a leading player in cover glass manufacturing. This partnership is expected to bring significant benefits in terms of technical expertise and clientele.

Environmental And Social Risks

Environmental considerations: Environmental risks for industry players include the use of and handling of hazardous waste or materials, as well as waste disposal practices. These standards expose the Group to the risk of substantial environmental costs and liabilities, including liabilities associated with past activities. All the manufacturing units of OEL (100% subsidiary of OIL) are equipped with permits, licenses, and the expertise to handle such hazardous wastes and materials. OEL's operations comply with global standards. OEL has the capability to manufacture Restriction of Hazardous Substance (RoHS)-compliant products.

Social considerations: OEL is exposed to social risks, including the implementation of labour rights and maintaining corporate governance. Health and safety concerns of the employees are addressed with comprehensive measures and the initiatives expand beyond the company facilities to cover the communities around the locations. Around 85% of the employees were provided training on safety and for skill upgradation. The company has board-approved policies in place to ensure workplace safety.

Liquidity position: Adequate

The liquidity position is adequate, supported by annual cash generation from business of Rs. 35-40 crore, Rs. 15-20 crore of cash and bank balances on average (~Rs. 29 crore as on March 15, 2024) and ~Rs. 10-12 crore of buffer in cash credit limit as of February 2024. Annual repayments of ~Rs. 6 crore for long-term debt will start from FY2025 onwards, and additional working capital requirements will be met by available liquidity. The company's ability to raise the required equity and finalise the terms for debt sanction regarding the proposed JV will remain crucial in determining the liquidity profile going forward.

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 or a significant weakening of credit and liquidity metrics. Additionally, TOL/TNW higher than 1.5 times on a sustained basis will be a negative trigger for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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.

About the company

OIL is a public company incorporated in 1993. It has an established track record in the electronic and IT device distribution business with reputed OEMs. At present, the company primarily distributes various electronics and IT-related devices of 'Plantronics', a US-based manufacturing company. OIL is also engaged in the distribution of mobile accessories under the brand, 'Mo-Life'. OIL's shares are listed on BSE and NSE.

OEL is a 100% subsidiary of OIL. OEL is involved in the contract manufacturing of wearables such as smartwatches, hearables and twin wireless stereos (TWS) for reputed OEMs in the domestic market. OIL has another wholly owned manufacturing

subsidiary, GDN Enterprises Private Limited, which was formed in 2014 to manufacture IT hardware products, and OEL undertakes the manufacturing requirements for GDN. The Group has been shortlisted for three PLI schemes related to mobile phones, IT hardware and telecom equipment. It participated in mobile phone and IT hardware PLI schemes through OEL, and through GDN for the telecom equipment PLI scheme.

Key financial indicators (audited/provisional)

OIL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	498.0	1,196.2	1,037.6
PAT	0.0	48.8	32.7
OPBDIT/OI*	1.6%	3.9%	4.8%
PAT/OI	0.0%	4.1%	3.2%
Total outside liabilities/Tangible net worth (times)	0.7	1.4	-
Total debt/OPBDIT (times)	5.4	2.5	-
Interest coverage (times)	1.6	8.1	9.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2021	Date & rating in FY2020
				Mar 28, 2024	Dec 30, 2022	-	-
1 Non-Fund based limits - Proposed	Long term/ Short term	50.00	--	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BBB- (Stable) / [ICRA]A3	-	-

Source: Company

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
Optimus Infracom Limited (OIL)*	100.00%	Full Consolidation
Optimus Electronics Limited (OEL)	100.00%	Full Consolidation
GDN Enterprises Private Limited	100.00%	Full Consolidation
Bharat Innovative Technologies Glass Private Limited	70.00%	Full Consolidation
Teleecare Network India Private Limited	46.22%	Equity Approach

Source: OIL annual report and company data*parent company

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About ICRA Limited:

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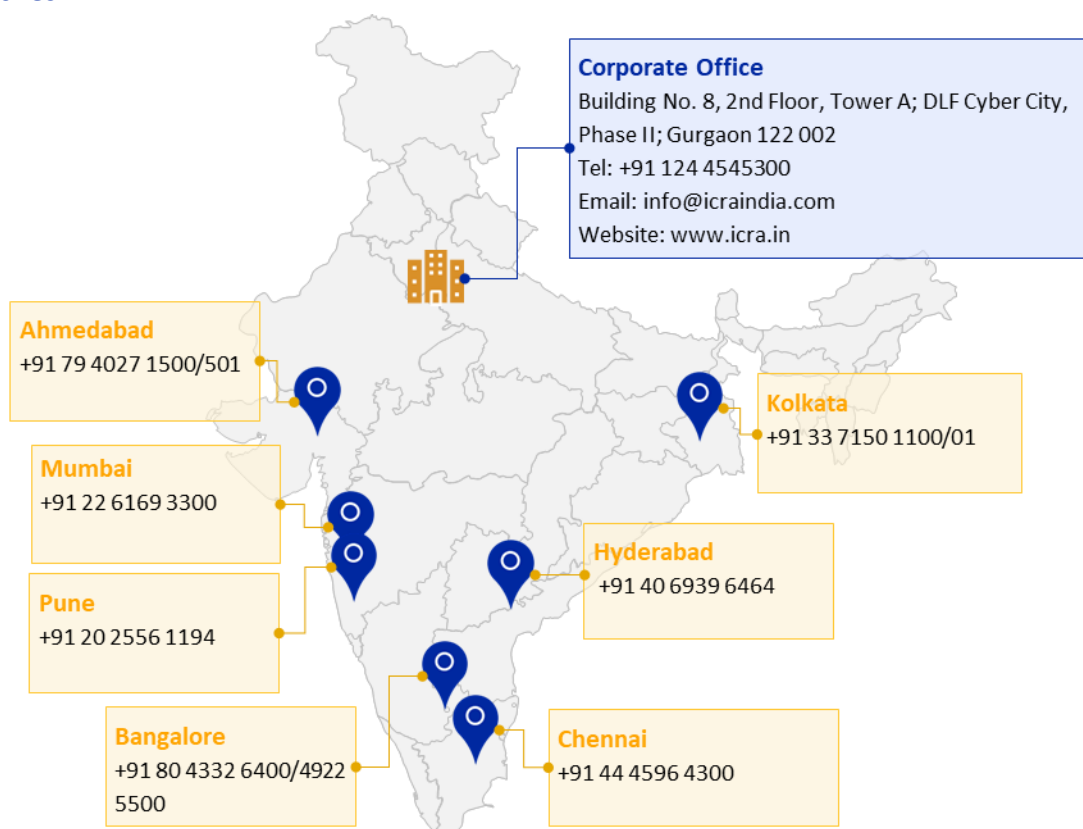


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