

Future Mobile LLP

March 26, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital	25.00	[ICRA]BBB- (Stable); Assigned
Non-fund Based	30.00	[ICRA]A3; Assigned
Total	55.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings take into account Future Mobile LLP's (FML) experienced promoters and its sole distributorship right of Oppo smartphones on the e-commerce platforms in India. FML also got the distributorship of Realme smartphones on the online marketplaces in India in the current fiscal. This apart, FML has been involved in the smartphone distributorship business for other brands. ICRA also takes comfort from the healthy revenue growth in the last two years with operating income (OI) expected to be around Rs. 1,250 crore in FY2019 which, coupled with efficient working capital management, has resulted in healthy debt coverage indicators. Furthermore, the firm has strong selling and marketing arrangements with major e-commerce players, i.e. Flipkart, Amazon, Paytm Mall, Snapdeal, Airtel Store etc., which provide strong revenue visibility. The ratings favourably factor in the growth opportunities in the Indian smartphone market owing to an increase in the customer base and growth in the smartphone industry and the established position of Oppo.

ICRA's ratings, however, are constrained by the intensely competitive Indian smartphone industry due to the presence of various domestic and global players posing stiff competition. ICRA's rating action factors in the weak financial profile of the firm as reflected in the low operating profit margins and weak net worth position. The changes and uncertainty in the regulatory framework and policies, the rapidly changing customer preferences, and the risk of technological obsolescence also constrain the ratings.

Going forward, the firm's ability to improve its scale and profit margins as well as maintain a prudent capital structure and optimal working capital intensity will be the key rating sensitivity.

Outlook: Stable

ICRA believes that FML will continue to benefit from the extensive experience of its promoters and the established presence of Oppo in the domestic smartphone market. The outlook may be revised to Positive if a sustained improvement in the OI and profitability lead to improvement in cash accruals. The outlook may be revised to Negative if there is a decline in revenues or cash accruals, or if there is a deterioration in working capital parameters.

Key rating drivers

Credit strengths

Extensive experience of promoters in smartphones distributorship business - The promoters have been involved in smartphone distributorship for around a decade through various Group companies. FML started the smartphone distributorship business in 2017. Though the firm started with the distributorship of Samsung smartphones initially, it later ventured into Oppo and Realme brands.

Sole online distributor of Oppo smartphones and low penetration on e-commerce platform at present - FML is the sole online distributor of Oppo smartphones in India. Oppo has a strong brand presence in the country with a market share of ~8% in the smartphone segment. It posted ~49% YoY revenue growth in India in FY2018. The increasing market share of smartphones in the domestic market augurs well for the firm. The e-commerce platform contributes ~35% the smartphone market in India, up 65% YoY. The online platform has huge growth potential due to low penetration.

Healthy revenue growth in last two years - FML reported healthy top-line growth in the last two years. The OI of the firm grew by 180% in FY2018 due to a significant increase in sales volume in Oppo smartphones in India. The sales volume continues to increase at a healthy pace in the current fiscal with the addition of online distributorship of Realme smartphones. The firm has clocked revenues of Rs. 1,068 crore as of January 2019 against Rs. 521.78 crore in FY2018 and is expected to post sales of more than Rs. 1,250 crore in FY2019.

Credit challenges

Intensely competitive industry and low profitability - The smartphone industry is intensely competitive due to the presence of various domestic and global players, and low entry barriers. FML has low profitability because of the trading nature of the distributorship business. The higher marketing and selling expenses exert further pressure on the firm's profitability. This apart, it has limited pricing flexibility for its final product as the prices are fixed by the manufacturer.

Weak financial profile - FML has a highly leveraged capital structure due to low net worth. Its TOL/TNW stood at 9.1 times as on March 31, 2018. The firm's capital structure is expected to remain leveraged due to high dependence on external debt to meet its working capital requirement to support the increasing scale of operations.

Liquidity position

FML's liquidity position would remain comfortable due to the low repayment liability. The debt profile consists of working capital borrowing (Rs. 20.52 crore) only as on February 28, 2019. The cash generation of the business is expected to be sufficient for the payment of interest on working capital borrowings. The working capital utilisation remained high in the range of 80–90%. The debt service coverage ratio and interest coverage are also expected to remain comfortable. The firm had low current ratio of 1.11 times in FY2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the standalone financial profile of the firm

About the company

Future Mobile LLP (FML) is a part of the SM Group. The Group operates in diversified business sectors – trading, manufacturing and healthcare – from its head office in Noida (Uttar Pradesh). The firm was constituted as an LLP in September 2017 and has its registered office in New Delhi. FML operates from Mumbai and Delhi. At present, Mr. Kushagra Aggarwal and Mr. Kunal Aggarwal manage the operations of the firm.

FML is the authorised sole distributor of Oppo smartphones on major e-commerce platforms in India like Flipkart, Amazon, Snapdeal, Paytm and their subsidiaries. The firm is registered with Flipkart India Private Limited (the wholesale resellers of Flipkart) and Appario Retail Private Limited (the wholesaler of Amazon) for selling mobile phones online in India. This apart, the firm is registered with Paytm Mall, Tata Cliq and Snapdeal to sell smartphone directly on the websites. Recently, FML became an online channel partner with Airtel. FML has also started the distributorship of Realme smartphones in India in the current fiscal. The firm also sells Samsung smartphones through an offline channel.

In order to capitalise on the growing demand of smartphones in India, mainly through the online platforms, FML is looking to become a channel partner with other mobile brands also.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	186.27	521.78
PAT (Rs. crore)	2.17	6.88
OPBDIT/OI (%)	2.36%	2.25%
RoCE (%)	-	121.64%
Total Debt/TNW (times)	0.00x	0.00x
Total Debt/OPBDIT (times)	0.00x	0.00x
Interest Coverage (times)	1.98x	5.97x

Status of non-cooperation with previous CRA: CRISIL has moved the CRISIL BB (Stable) rating to issuer non-cooperation category in February 2019 due to non-availability of the requisite information to carry out rating exercise.

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	-	-
1 Cash Credit	Long Term	25.00	-	[ICRA]BBB- (Stable)	-	-	-
2 Bank Guarantee	Short Term	30.00	-	[ICRA]A3			

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	Cash Credit	-	-	-	25.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	-	-	-	30.00	[ICRA]A3

Source: Future Mobile LLP

Annexure-2: List of entities considered for consolidation: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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