



Infomerics Valuation And Rating Pvt. Ltd.

Optiemus Infracom Limited

January 2, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Lease Rental Discounting Facility (LRD)	190.00	IVR BBB/Stable Outlook(IVR Triple B with Stable Outlook)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating draws comfort from the escrow mechanism and structured payment for LRD facility and reputed clientele. These strengths are partially offset by renewal risk of lease. However, Infomerics also notes deterioration in scale of operations of Optiemus Infracom Limited (OIL) and its weak profitability resulting in weak debt protection metrics.

Key Rating Sensitivities:

Upward factors

- Timely rent escalation
- Prepayment of debt obligations

Downward factors

- Exit of lessee

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Reputed Client

OIL has entered into a lease agreement with Samsung India Electronics Pvt Ltd (SIEPL) to lease out office building situated at Sector 126, Noida. Since, Samsung is a large international player, this offsets the counterparty risk.



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Escrow mechanism and structured payment

The main bank loan facility has been structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rent receivables from the tenants be routed directly to an Escrow Account set up specifically for the repayment of the said LRD facility. The lease rent amounts deposited into the Escrow Account are applied towards payment of the scheduled interest and principal repayments of the LRD facility. The balance amount is transferred to the corporate account of OIL.

Key Rating Weaknesses

Renewal Risk

The lease agreement with SIEPL is valid for a period of nine years from Sep 18, 2013 through Sep 17, 2022. As a substantial portion of revenue comes from a single lessee, hence timely renewal of lease agreement is crucial to generate sufficient rent receipts to cover its debt obligations.

Deterioration in scale of operations along with weak profitability resulting in weak debt protection metrics

The operating income of OIL has declined from over Rs.1000crore in FY17 to Rs.404crore in FY19. The main reasons for decline in turnover have been decline in sales of HTC products and closing down of organized retail chains in India such as The Mobile Store, Jumbo among others. The EBIDTA margin of the company has also remained highly volatile. The margins witnessed a significant increase in FY18 as a result of off-take from Blackberry handsets without many corresponding costs. The blackberry handsets were launched and marketed through Amazon. The management did not incur any major development and marketing costs on Blackberry in FY18. However, the company posted negative margins in FY19 on account of provisioning of bad and doubtful debts and also some investments in group companies were written off. The deterioration in scale and profitability have resulted in weak debt protection parameters as reflected by negative interest coverage and Total Debt/GCA of 23.18x for FY19.



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Analytical Approach

Standalone

Applicable Criteria:

Financial Ratios & Interpretation (Non-financial Sector)

Rating Methodology for Structured Debt Transaction (Non-securitisation transaction)

Liquidity

The main term loan facility has been structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rent receivables from the tenants be routed directly to an Escrow Account and applied towards payment of scheduled interest and principal repayments of the LRD facility. Overall liquidity position seems to be Adequate.

About the Company

Optiemus Infracom Limited (OIL) was originally incorporated in the year 1993 as Akanksha Finvest Limited (AFL), a Non-Banking Financial Company. In January 2009, Mr. Ashok Gupta, the promoter of Telemart Communication India Pvt. Ltd. (Telemart), which was a distributor of Samsung mobile handsets, took over the management of AFL. Subsequent to the takeover, the name of AFL was changed to Akanksha Cellular Limited (ACL). Later during March 2009, the Board of Directors of ACL approved a scheme of merger of seven group companies (including Telemart) with ACL. The name of the merged entity was subsequently changed to “Optiemus Infracom Limited” in June 2011. Optiemus is currently listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

OIL is engaged in distribution of mobile handsets of reputed brands like Nokia and Samsung for last 25 years. They operate 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 centers.



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Financials (Standalone):

For the year ended*	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	613.06	404.27
EBITDA	70.14	-7.83
PAT	24.69	2.22
Total Debt	246.93	238.81
Tangible Net worth	320.34	318.05
EBITDA Margin (%)	11.44	-1.94
PAT Margin (%)	3.85	0.43
Overall Gearing Ratio (x)	0.77	0.75

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CARE Ratings has moved the rating into Issuer Not Cooperating category as per PR dated Nov 27, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Lease Rental Discounting	Long Term	190.00	IVR BBB/Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Lease Rental Discounting	-	3M MCLR (floating)	Sep, 2028	190.00	IVR BBB/Stable