CareEdge RATINGS

GNG Electronics Private Limited (Revised)

December 5, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	76.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	48.50	CARE A3 (A Three)	Assigned
Total Bank Facilities	**125.00 (₹ One Hundred Twenty-Five Crore Only)**		

Detailed rationale and key rating drivers

The ratings assigned to GNG Electronics Corporation Private Limited (GNG) factors in the combined strength of GNG along with its group companies namely Kay Kay Overseas Corporation (KKOC) and Electronics Bazaar FZC (EBFZC) referred to as a Kay Kay group (KKG). Ratings reflected group's healthy revenue growth during FY20 to 7MFY23, directional improvement in the EBITDA and favourable leverage and coverage indicators. Ratings also factors in KKG's expected improvement in fund based working capital (cash Credit) utilisation from October 2022.
The ratings, however, are constrained by KKG's exposure to competition prevalent in the industry, technological obsolescence risks, working capital intensive operations reflected in higher utilisation of cash credit facility till September 2022.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Healthy and sustainable improvement in the group level revenue above Rs. 3000 crores while maintaining the favourable revenue mix
- Improvement in the group level EBITDA margin above 4% on a sustainable basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the working capital cycle resulting in cash credit facility utilisation above 90%.
- Deterioration in overall gearing above 2.5x

Detailed description of the key rating drivers

Key rating strengths

Strong Business Profile

Business profile of the group benefits from its diversified business segment namely, Distribution segment with more than 1000 distributors spread across various state of India, Distribution via E commerce portals (Online) and sale of refurbished laptops. Till FY19 group was mainly into distribution of laptops and more than 60% of the revenue was contributed by this segment. Post FY19; KKG has managed to diversify its revenue stream with stabilisation of refurbished laptop segment along with introduction of E commerce platform "electronics bazaar". Electronics Bazaar Refurbished Laptops have distinct brand positioning in market and command higher premium. Moreover, in FY22 KKG was given a status of Amazon Premium Pro seller for certain category products like Personal Care Appliances, Video Games software etc. which has resulted into product diversification. Business profile of KKG also benefits from geographical diversification and it caters to US and Europe market through EBFZC company based out of Dubai. As informed by the management; in refurbishment segment KKG has a unique advantage of having two certifications namely, Microsoft Authorized Refurbisher (enables KKG to offer genuine window licenses for refurbished laptops) and R2v3 license (essential for procurement of e-waste (line Laptops PCs) from MNCs and corporates). CARE believes that the above stated certification given KKG a competitive advantage over its peers.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Steady revenue growth during the period under study; likely to continue in FY23:
Except for FY20 where the revenue growth was impacted due to supply side constraints; KKG has shown healthy growth in FY21 and in FY22. KKG's revenue improved to Rs.1475 crores (FY21: Rs. 839 crores, FY20: 530 crore and FY19: 720 crores). KKG was certified as amazon premium pro seller in Q2 of FY22 and hence Revenue growth in FY22 was largely contributed by E commerce segment. KKG has projected a revenue of Rs. 2011 crores for FY23 out of which Rs. 1043 crores have already been achieved in 7MFY23. Management expects FY23 revenue to be well and above the projected revenue. CARE believes that in mid term KKG's refurbishing segment and E Commerce segments are likely to be the revenue growth drivers.

Sustainable improvement in the EBITDA Margin likely to continue:
KKG's EBITDA margin has shown steady improvement during FY19 to FY22. In FY22 EBITDA margin has improved to 3.86% from 3.21% in FY19. KKG's margins have been resilient during FY20 and FY21; years which were affected by Covid pandemic. As per 7MFY23 KKG has reported EBITDA margin of 4.05%. The improvement in the EBITDA margin is mainly on account of favourable revenue mix where the revenue share from refurbished laptop has increased to ~30% in FY22. KKG has fully integrated refurbishing facility in Mumbai as well as in Dubai. KKG's refurbishing facility offers 27 check points, chip level repair capability along with high end Cosmetic refurbishment including LCD, paint, and fabrication work. Current capacity utilisation in this segment has been moderate which stood at 40%. Due to its integrated refurbishing facility KKG's EBITDA margin from this segment has been ~7%. CARE believes that ability of the group to improve its revenue share and utilised its existing capacities in refurbishing segment will be critical for improvement in the EBITDA margins.

Moderate leverage/Coverage position in FY22 likely to show an improvement in midterm:
At a group level basis, as on March 31, 2022, while total debt of the company increased to ~Rs248 crore (FY21-end: ₹166 crore), net worth increased to of Rs. 125crore as on March 31, 2022 (Rs.86crore as on March 31, 2021). As on 7MFY23-end, total debt has further increased to Rs. 293 crores. The increased in the debt is in form of fund based working capital facility to fund the revenue growth. The overall gearing ratio (group level) stood at 2.01 times as on 7MFY2023 (1.9x as on March 31, 2022). Group's debt to equity has remained below unity during the period under study. KKG's; interest coverage ratio has remained healthy and stood at ~3x in FY22 mainly on account of improvement in the EBITDA margin. Management expects overall gearing to fall below 2x in FY23 and improve consistently thereafter. CARE believes that KKG's leverage, and coverage position will remain comfortable in midterm mainly on account of absence of any major debt led capex and expected improvement in operational performance over FY23 to FY25.

Experienced promoters and established track record of operations:
The company is promoted by Mr. Sharad Khandelwal (CEO), who has rich experience of over three decades in the Indian IT distribution industry. Mr. Khandelwal is a ICAI Gold medallist.

Key rating weaknesses

Working capital intensive nature of business:
Working capital intensity is an inherent characteristic of the IT distribution business. Further group has to build up inventory of refurbished laptops. The inventory built up starts with procurement of old laptops and then converting it to refurbished one. Although group's operating cycle has improved in FY22 to 62 days from 76 days; it still remains on a higher side. Working capital cycle intensity has also reflected in KKG's higher working capital utilisation (cash credit) in last 12 months ended September 22. In October 22 company has been sanctioned additional working capital facility to the tune of Rs. 70 crores which is likely to normalise the utilisation. CARE believes that ability of the KKG to maintain acceptable level of inventory and receivables will be key in midterm.

Risk of technological obsolescence:
Technological obsolescence is an inherent risk in any technology related business and also applies to the IT distribution business. However, as informed by the management KKG's vendors continue to provide significant support against technological obsolescence. KKG is compensated when a new model is launched, and the existing model is to be sold at a discount. Nonetheless, KKG continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability.

Foreign exchange risk although low, is present:
Although there are very limited imports in the group company generates sizeable revenue from catering its product to US and European markets through its Dubai based subsidiary. As informed by the management due to favourable position of rupee against dollar for export market group has not currently hedge its dollar.

Liquidity: Adequate

The liquidity position of KKG is adequate with expected gross cash accruals of Rs. 36.65 crore, Rs. 46.94 Crores and Rs. 59.27 crore in FY23, FY24 and FY25. As against this repayment obligations are Rs.2.37 crores in FY23, 7.98 crores in FY24 and 10.11 in FY25. The current ratio of the group remained moderate at 1.37 times as on March 31, 2022, indicating that the company has sufficient current assets to meet its current liabilities obligation. As informed by the management in midterm there are no debt led capex has been planned. Although groups bank line utilisation has remained above 90% for 12 months ended September 22; recently KKG has been sanctioned additional CC limit of 70 crores. This has resulted softening of cash credit limit utilisation levels across various bank lines in October FY22 and the utilisation levels are likely to remain moderate in midterm.

Analytical approach

CARE has adopted combined approach for arriving at the ratings. Entities of KKG group (KKOC GNG and EFZC) operate in similar business lines, having high operational synergies, and common management and treasury.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

About the company

Founded in 1995, Kay Kay Group (KKG) consist of "Kay Kay Overseas Corporation" (KKOC), "GNG Electronics Private Limited" (GNG) and recently incorporated "Electronics Bazaar FZE" (EFZC) (the 3 entities are collectively referred to as KKG). KKG initially started its business activity as distributor of computers and computer parts Peripherals. Currently, it operates in three segments namely; Refurbishing of old laptop, Distribution of laptops (through distributors and Electronic commerce portals) and Amazon Premium Pro Seller business. Day to day operations of the management are vested with Mr. Sharad Khandelwal who is the promoter of the group and also a Gold Medallist of The Institute of Chartered Accountant of India.

Brief Financials (Combined) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY2023
Total operating income	721.39	1416.25	1044.9
PBILDT	26.13	54.69	42.34
PAT	10.66	28.96	19.86
Overall gearing (times)	1.93	1.99	1.99
Interest coverage (times)	2.42	2.97	2.62

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: NA

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	76.50	CARE BBB-; Stable
Fund-based - ST-Vendor financing		-	-	-	48.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	76.50	CARE BBB-; Stable	NA	NA	NA	NA
2	Fund-based - ST-Vendor financing	ST	48.50	CARE A3	NA	NA	NA	NA

*Long term/Short term.
NA: Not Applicable

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Vendor financing	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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