GNG Electronics Private Limited

January 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	176.50	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	30.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings reaffirmed of GNG Electronics 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 reflect group's healthy revenue growth during FY23 to 7MFY24, directional improvement in the EBITDA and favourable coverage indicators. Ratings also factors in KKG's improvement in fund based working capital (Cash Credit) utilisation level. The ratings, however, are constrained by KKG's exposure to competition prevalent in the industry, technological obsolescence risks, working capital intensive operations and high overall gearing levels.

Rationale and key rating drivers

Rating sensitivities: Factors likely to lead to rating actions

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

- Healthy and sustainable improvement in the group level revenue above Rs. 3500 crores while maintaining the favourable revenue mix.
- Improvement in the group level EBITDA margin above 4.5% on a sustainable basis.
- Improvement in overall gearing to below 1.75 times on sustained bases.
- Improvement in overall working capital position of the company on the sustained bases.

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

- Significant deterioration in the working capital cycle resulting in stressed liquidity.
- Deterioration in overall gearing above 2.5x

Analytical approach: Combined

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.

Outlook: Positive

The revision in outlook to positive reflects CARE Ratings' belief that the company will continue to benefit from its wide distribution network, diversified product and services profile, presence in both domestic and international market, and steady revenue growth. The same is expected to translate into an improved financial profile over the medium term.

Detailed description of the key rating drivers:

Key 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, toys, etc and in FY24, the company has become HP certified refurbisher, 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 from MNCs and corporates). Additionally, in FY24 KKG has become HP certified refurbisher.

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

Steady revenue growth
KKG has previously shown healthy growth in FY21 and in FY22. In FY23 KKG's revenue improved to Rs.2157 crores (FY22: Rs.1475; FY21: Rs. 839 crores, FY20: 530 crore and FY19: 720 crores). KKG was certified as Amazon premium pro seller from Q2 of FY22 and hence revenue growth in FY23 was largely contributed by E commerce segment, additionally in FY24 KKG has become a certified HP refurbisher in India. CARE believes that in midterm 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 FY23. In FY24 EBITDA margin has improved to 4.07% from 3.21% in FY19. KKG's margins have been resilient during FY20 and FY21; years which were affected by Covid pandemic. The improvement in the EBITDA margin is mainly on account of favourable revenue mix with increasing contribution from refurbished laptops. 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. 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 utilise its existing capacities in refurbishing segment will be critical for improvement in the EBITDA margins.

Moderate coverage position in FY23 likely to show an improvement in midterm:
CARE expects the interest coverage ratio of around 2.5 to 3 times for FY24 and then displaying a steady improvement thereafter. CARE expects a healthy DSCR around 2.5 times for FY24 with improvement subsequently considering no new term loans are likely to be availed. KKG's interest coverage ratio has remained healthy and stood at ~3x in FY23 mainly on account of improvement in the EBITDA margin.

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. Team of KKG is experienced and professional with almost zero attrition rate in top & middle tier of management. The senior management team consists of professionals with over 3 decades of industry experience at global brands like Amazon, HP, Dell etc.

Key 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 build-up starts with procurement of old laptops and then converting it to refurbished one. Although group's operating cycle has improved in FY23 to 60 days from 62 days in FY22; it remains on a higher side. Working capital cycle intensity has also reflected in KKG's higher average utilisation of fund-based working capital funding (cash credit) lines in last 12 months ended October 23, and negative cash flow from operations since FY20. The company has been sanctioned additional working capital facility in FY24. CARE believes that ability of the KKG to maintain liquidity cushion and acceptable level of inventory and receivables will be key monitorable in midterm.

Gearing likely to remain elevated in near term:
The fast revenue growth of the company is supported by large working capital borrowing due to which overall debt levels could display significant increase leading to overall gearing above 2 times in near term. However, CARE notes that the term loan repayments will be lower going forward which will support liquidity to some extent.

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 principals 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.

Liquidity: Adequate
The liquidity position of KKG is adequate with expected gross cash accruals of around Rs. 70 crores, Rs. 120 crores and Rs. 180 crores in FY24, FY25 and FY26 respectively, as against repayment obligations are Rs.2.80 crores in FY24, Rs. 6.13 crores in FY25. The current ratio of the company remained moderate at 1.53 times as on March 31, 2023, 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 plans.

Applicable criteria

Policy on default recognition
Consolidation
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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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 is 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	7M FY24 (UA)
Total operating income	1416.25	2,157.90	1650.09
PBILDT	54.69	87.72	67.98
PAT	28.96	48.40	NA
Overall gearing (times)	1.99	1.92	NA
Interest coverage (times)	2.97	3.24	2.83

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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		-	-	-	176.50	CARE BBB-; Positive
Fund-based - ST-Purchase Invoice Financing		-	-	-	30.00	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	176.50	CARE BBB-; Positive	-	1)CARE BBB-; Stable (05-Dec-22)	-	-
2	Fund-based - ST-Purchase Invoice Financing	ST	30.00	CARE A3	-	1)CARE A3 (05-Dec-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Purchase Invoice Financing	Simple

Annexure-5: Lender details

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

Note on the 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: 912267543566 E-mail: sudarshan.shreenivas@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Arunava Paul Associate Director **CARE Ratings Limited** Phone: 912267543667 E-mail: arunava.paul@careedge.in Renuka Mahimkar Rating Analyst **CARE Ratings Limited** E-mail: Renuka.Mahimkar@careedge.in

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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