Garg Electronics (Unit-II)

March 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	11.50	CARE B; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE B+; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	3.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	LT rating downgraded from CARE B+; Stable and ST rating reaffirmed and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	2.00	CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Limited (CARE Rating) has been seeking information from Garg Electronics (Unit-II) (GE) to monitor the ratings vide e-mail communications/letters dated February 24, 2025, February 18, 2025, February 14, 2025, December 06, 2024, etc. among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings has reviewed the rating on the basis of the best available information which, however, in CARE Ratings opinion is not sufficient to arrive at a fair rating. The rating on Garg Electronics (Unit-II) 's bank facilities will now be denoted as **CARE B; Stable/CARE A4; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised on account of non-availability of requisite information due to non-cooperation by GE with CARE Ratings efforts to undertake a review of the rating outstanding. CARE Ratings views information availability risk as a key factor in its assessment of credit risk.
Further, the rating remains constrained by its small and fluctuating scale of operations and elongated operating cycle. The ratings are also constrained by project execution risk and stabilization risk, constitution of the entity being a proprietorship firm, foreign exchange fluctuation risk, raw material price volatility risk and its presence in a highly competitive nature of the industry. The ratings, however, draws comfort from experienced proprietor coupled with long track record of operations, moderate profitability margins, moderate capital structure and debt coverage indicators.

Analytical approach:

Standalone

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on March 19, 2024, the following were the rating strengths and weaknesses

Key weaknesses

Small and fluctuating scale of operations

GE's scale of operations stood small as marked by total operating income (TOI) of Rs.11.03 crore and gross cash accruals (GCA) of Rs.0.93 crore respectively, during FY23 (FY refers to the period April 1 to March 31) as against Rs.5.42 crore and Rs.0.59 crore respectively, during FY22. Nevertheless, the scale remains small, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Moreover, GE's scale of operations remained fluctuating for the period FY21-FY23. It declined in FY22 over FY21 and thereafter registered improvement in FY23. The same was on the back of higher intake from its existing customers. Further, the firm has achieved total operating income of ~Rs.8.50 crore during 11MFY23 (refers to the period from April 1, 2022 to February 28, 2023; based on provisional results) and is expected to book total operating income of around Rs.11.00 crore in FY24.

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

Elongated operating cycle

The operating cycle of the firm stood elongated as evident from 462 days for FY23 with major portion of funds blocked in inventory and moderate portion in debtors. There is high volatility in the prices of raw material mainly of copper clad laminates which firm used to import from China. In order to save the firm from the raw material price volatility risk, the firm used to purchase the same at favourable prices. Further, the firm also have high inventory in the form of work in progress since it takes average time of around 1-2 months for manufacturing the products. Further, owing to large product portfolio (as per size, design, quality range, etc.); GE is required to maintain adequate inventory in the form of raw material to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers. All these results in high inventory holding period of 385 days in FY23. Being in highly competitive nature of industry, the firm has to offer liberal credit period of around 3-4 months to its customers resulting an average debtor period of 100 days in FY23. However, the firm receives payable period of around 1-2 months from its suppliers. The working capital borrowings of the firm remained almost 80%-85% utilized during the past 12 months ending February, 2024.

Project execution and stabilization risk

GE has undertaken capex plan with total project cost of Rs.12.00 crore for the enhancement of its existing capacities by 30,000 square meters per annum by installation of new plant & machinery at its existing facility in Baddi, Himachal Pradesh. The project is proposed to be funded through term loan of Rs.9.00 crore and balance through proprietor's contribution and internal accruals of Rs.3.00 crore. Also, the firm will apply for subsidy to the tune of Rs.2.55 crore under "The Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS)" for reimbursing the capex plan. As of now, the debt has been tied-up however, the project is at very nascent stage. The project is expected to commence its operations from last quarter of 2025. Furthermore, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the services in the light of competitive nature of industry is yet to been seen. During the initial phases of operations on new facility, the capital structure of the firm is expected to remain leveraged due to debt funded CAPEX undertaken.

Constitution of the entity being a proprietorship firm

GE's constitution being a proprietorship firm has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency and the firm being dissolved upon the death/retirement/insolvency of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders

Foreign exchange fluctuation risk

GE meets (~95% in FY23) of its procurement in the form of imports from China only while it sells its finished products in domestic market. With initial outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the firm is exposed to the fluctuation in foreign exchange rates which the firm does not hedge. Thus, GE is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals and profitability margins. The risk is more evident now that the rupee has registered considerable volatility and could leave the firm carrying costly inventory in case of sudden appreciation. Moreover, any change in government policies, either domestic or international is likely to affect the firm's revenues. The earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non- tariffs barriers (restriction on the quality of imports), anti- dumping duties, international freight rates and port charges.

Raw material price volatility risk

GE's raw materials which include copper clad laminates, printing ink, glass fibre, etc. required for the manufacturing of printed circuit boards constitute a major component of the raw material of the total cost of production; hence any sharp volatility in their prices has a direct impact on the profitability margins of the firm. Though, the firm tries to pass on the price volatility to the end users, any sudden adverse fluctuations in raw material prices may not be passed on to customers completely owing to firm's presence in highly competitive industry and may adversely affect the profitability of the firm. The risk is more evident now that the market has considerable volatility and could leave the firm carrying costly inventory in case of sudden appreciation.

Highly competitive nature of industry

GE operates in a highly competitive nature of industry characterized by the presence of large number of players in the unorganized sector and organized sectors. The industry is characterized by low entry barriers due to low technological inputs. This further leads to high competition among the various players and has limited the bargaining power of the firm and also exerted pressure on its margins.

Key strengths

Experienced proprietor coupled with long track record of operations
Mr. Rajneesh Kumar Garg (Managing Director); is a post graduate (M. Tech.) and has an accumulated experience of more than three decades in the electrical equipment industry through his association with this entity and associate concern namely; "India Circuits Private Limited" and also looks after the overall operations of the firm. The proprietor is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Moderate profitability margins
The profitability margins of the firm stood moderate for the last three financial years (FY21- FY23) wherein the firm reaps benefits of its established image in the market owing to long standing association with its customer base which has resulted into competitive edge over other players. The PBILDT margin of the firm declined to 15.87% in FY23 as against 22.68% in FY22 on the back of increase in raw material cost as coupled with limited ability of the firm to pass on the incremental cost to the end consumer. However, the PAT margin also declined to 5.32% in FY23 as against 5.27% in FY22. Going forward, it is expected to improve in the projected period on account of enhancement of its existing capacities which will improve the quality and also fetch better profitability margins over the medium term.

Moderate capital structure and debt coverage indicators
The capital structure of the firm stood moderate as on the past two balance sheet dates ending March 31, '22-'23 on account of limited debt levels against the proprietor's capital base. The overall gearing ratio stood at 1.24x as on March 31, 2023 showing improvement from 1.31x as on March 31, 2021 mainly on account of repayment of term loans coupled with accretion of profits to proprietor' capital base. Further, on account of limited debt levels, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA stood moderate at 1.91x and 9.36x respectively, in FY23 as against 1.70x and 16.22x respectively, in FY22. The improvement is on the back of increase in PBILDT owing to increase in the scale of operations consequently leading to higher gross cash accruals.

Liquidity: Stretched
The liquidity position of the firm remained stretched characterized by tightly matched cash accruals vis-à-vis repayment obligations. The firm has reported net cash accruals (NCA) to the extent of Rs.0.93 crore during FY23 and is expected to generate envisage NCA of Rs.0.95 crore for FY24 against repayment obligations of ~Rs.0.88 crore in same year. Further, the average utilization of working capital limits remained almost 80%-85% for the past 12 month's period ending February, 2024. The firm also has low unencumbered cash & bank balances which stood at Rs.0.06 crore as on March 31, 2023.

Applicable criteria
Definition of Default
Policy in respect of non-cooperation by issuers
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Garg Electronics (Unit-II) (GE), located in Baddi, Himachal Pradesh,was established in ss2007 as a proprietorship firm. The firm is currently being managed by Mr. Rajneesh Kumar Garg. The firm is engaged in the manufacturing of various types of printed circuit boards (PCBs) such as single sided PCBs. The manufacturing facility of the firm is located at Baddi, Himachal Pradesh having an installed capacity to manufacture 65,000 square meters per annum of printed circuit boards as on March 31, 2023. The products manufactured by the firm finds its application in diverse industries such as automobile, consumer electronics, electrical, consumer durables, etc. and supply the same to the vendors of different OEMs.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	11MFY24 (Prov.)
Total operating income	5.42	11.03	8.50
PBILDT	1.23	1.75	NA
PAT	0.29	0.59	NA
Overall gearing (times)	1.31	1.24	NA
Interest coverage (times)	1.70	1.91	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2.50	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	January, 2032	9.00	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based/Non-fund-based-LT/ST	-	-	-	-	3.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	-	2.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	2.50	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Mar-24)	-	-
2	Fund-based - LT-Term Loan	LT	9.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Mar-24)	-	-
3	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (19-Mar-24)	-	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	3.00	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable / CARE A4 (19-Mar-24)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

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

Contact us

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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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