GNG Electronics Limited

March 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	227.50 (Enhanced from 176.50)	CARE BBB-; Positive	Reaffirmed
Short Term Bank Facilities	88.00 (Enhanced from 30.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has combined the financial risk profiles of Kay Kay Overseas Corporation (KKOC) and GNG Electronics Limited (GNG), along with its subsidiary and step-down subsidiaries, together referred to as the Group or Kay Kay Group (KKG), due to significant managerial, operational and financial linkages between them.

The ratings reaffirmation factors in the steady operational and financial performance of KKG in FY24 and 9M FY25, reflected by improvement in sales volume on the back of expanding distribution network and new agreements with HP and Lenovo and CARE Rating Limited's (CARE Ratings) expectations of sustained performance over the medium term. KKG's revenue grew by ~46% YoY to Rs. 3087 crore in FY24 (PY: Rs. 2108.23 crore) with increasing acceptability of its products and new industry partnerships. Its PBILDT margin also improved by ~50bps YoY to 4.49% (PY: 3.97%) in FY24 driven by increasing revenue contribution from refurbishment and economies of scale. The Group's financial risk profile, however, continues to remain moderate with adjusted overall gearing of 2.73x (including non-recourse lease liabilities) and interest cover of 2.49x (PY: 3.10) in FY24 due to sizeable incremental working capital requirements to fuel growth, funded by borrowings.

The ratings continue to positively factor in KKG's strong business profile demonstrated by its partnerships with industry leaders including Microsoft, HP and Lenovo as well as it being an Amazon premium pro seller. It also considers KKOC's diversified product portfolio in trading, its long-standing relations with reputed brands and experienced promoters. The ratings, however, remain constrained by KKG's working capital intensive operations, exposure to technological obsolescence and moderate financial risk profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sizeable improvement in revenue while maintaining healthy PBILDT margin above 5% on a sustainable basis.
- Improvement in TOL/TNW to below 2.0x on sustained bases.
- Planned infusion of fresh equity to fund working capital requirements

Negative factors

- Decline in revenue below Rs. 2,500 crores and lower profitability impacting cash accruals.
- Significant deterioration in the working capital cycle resulting in stressed liquidity.
- Deterioration in overall gearing above 2.5x.

Analytical approach: Combined

CARE Ratings has analysed the combined financial profiles of Kay Kay Overseas Corporation and GNG Electronics Limited, along with its subsidiary and step-down subsidiaries, to arrive at the ratings due to managerial, financial and operational linkages as detailed in Annexure-6.

Outlook: Positive

The positive outlook reflects CARE Ratings' expectations that the company's financial risk profile will improve over the medium term on the back of sustained revenue growth aided by established market presence, wide distribution network, diversified product portfolio and presence in both domestic and international market.

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

Detailed description of key rating drivers:

Key strengths

Continued growth in revenue with improvement in profitability; likely to continue in the medium term

KKG's revenue has recorded steady growth from FY20 to FY24 at a healthy CAGR of ~57% to Rs. 3,087 crore in FY24 backed by sustained growth in sales volumes for both its IT distribution and refurbishment businesses aided by geographical expansion of operations, increasing distribution network and new partnerships with industry players increasing the acceptability of its products. CARE Ratings expects that over the medium term, KKG's refurbishing segment and e-commerce segments are likely to be the revenue growth drivers. The Group's PBILDT margin has shown steady improvement during the same period to 4.49% in FY24 from 3.02% in FY20 mainly on account of favourable revenue mix with increasing contribution from refurbished laptops and increasing share of export sales. CARE Ratings expects the Group's margins to continue to improve to above 6% over the next 2 years aided by economies of scale.

Established IT distribution and refurbishment business with industry partnerships:

KKOC is one of the largest Amazon Premium Pro Sellers with major presence across product categories including personal care appliances, videogames, toys and laptops. It sells the products under its brand name – Electronics Bazaar which has a rating of 4/5 across more than 21,000 reviews on Amazon. It has employed industry-leading retail practices and ERP tools including Oracle to efficiently forecast and manage inventory. KKOC works with over 200 globally renowned brands including Phillips, Sony, Dyson, Panasonic, Microsoft, Vega, HP, Lenovo and Dell to market and distribute their products on Amazon.in with a portfolio of over 35000 SKUs. In its refurbishment business under GNG, the company's facilities are also audited and certified by Microsoft, HP and Lenovo, wherein its products are also sold as certified, which aids in product acceptability. It has the advantage of having certifications like 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). Refurbished laptops of the Company are additionally branded as refurbished by Electronics Bazaar (EB) and command premium in market, with original Branding of HP, Dell, Apple etc. remaining intact.

Wide distribution network with geographically diversified operations:

Business profile of KKG benefits from geographical diversification as it caters to apart from India the US, Middle East and European markets through its subsidiary and step-down subsidiaries. It operates certified refurbishment facilities in Navi Mumbai, Sharjah and USA with current utilisation at close to 33% translating into healthy scope for expansion. It has a wide distribution network comprising more than 3000 customers across geographies. Its diversified network and refurbishment facilities aid in catering to a geographically diversified clientele and are expected to benefit the company to improve its market share over the coming years.

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. The senior management team consists of professionals with over 3 decades of industry experience at global brands like Amazon, HP, Dell etc. The experienced promoters and management is expected to aid the entity in growing its market share in the IT distribution and refurbishment industry over the medium term.

Key weaknesses

Working capital intensive nature of business:

Working capital intensity is an inherent characteristic of the IT distribution business, wherein the entity is required to stock 45-60 days of inventory across a large category of products to meet delivery timelines. Additionally, the refurbishment business requires stocking of both old and refurbished laptops, which further increases inventory holding. Although group's operating cycle has improved in FY24 to 59 days from 62 days in FY23; it continues to remain on a higher side. Working capital intensity is also reflected in KKG's high average utilisation of fund-based working capital (cash credit) lines in last 12 months ended November 2024, 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.

Leveraged capital structure and moderate debt coverage indicators:

The fast revenue growth of the company is supported by large working capital borrowing due to which overall debt levels remain high as reflected in adjusted overall gearing of 2.73x (PY: 2.20x) in FY24 and TOL/TNW at 3.31x (PY: 2.35x). With expectations of continued growth in scale requiring additional borrowings, the capital structure is likely to remain leveraged over the medium term. KKG's interest coverage ratio has remained moderate at 2.49x (PY: 3.10x) in FY24 and is expected to improve in medium term supported by improving PBILDT margin. CARE Ratings notes that GNG has filed a draft red herring prospectus with SEBI to raise fresh equity capital of ~Rs. 825 crore with the objective of reducing borrowings and meeting working capital requirements. Developments to this effect will continue to be monitored.

Risk of technological obsolescence and competition from industry players:
Technological obsolescence is an inherent risk in any technology related business and also applies to the IT distribution business, which coupled with the sizeable inventory holding requirements, could result in inventory markdowns for slow moving products. However, 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. Moreover, the Group remains exposed to intense competition from other incumbents in the IT distribution and refurbishment industry, which remains largely unorganised. The risk is, however, mitigated to an extent by partnerships with large IT hardware entities for refurbishment.

Liquidity: Adequate
KKG's liquidity remains adequate with projected gross cash accruals of Rs. 100-150 crore p.a. over the next 2-3 year against debt repayment obligation of ~Rs. 10 crore in the same period and no major planned capex. However, the cash flow from operations is likely to remain negative due to sizeable incremental working capital requirements. The average utilization of the working capital facilities stood at ~92% for last 12 months ending Nov 30, 2024. The current ratio of the company remained moderate at 1.08 times as on March 31, 2024.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Kay Kay Overseas Corporation (KKOC) is a partnership firm engaged in the business of trading and distribution of personal care appliances, toys and videogames, laptops and other peripherals and medical devices. It has an association with over 200 global brands with a product portfolio of over 35,000 SKUs. It is recognised as an Amazon Premium Pro Seller and derives more than 70% of its revenue through the ecommerce marketplace under the brand name 'Electronic Bazaar'. The firm was established in 1995.

GNG Electronics Limited (GNG; erstwhile GNG Electronics Private Limited) is in the business of refurbishment and trading of laptops and peripherals with refurbishment facilities in India, the UAE and the USA. GNG was incorporated in 2006 and is ultimately owned by Mr. Sharad Khandelwal and his family members. The above entities together are referred to as the KKG Group.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	9M FY25 (UA)
Total operating income	662.65	1140.80	1123.96
PBILDT	47.01	77.64	90.36
PAT	32.88	51.39	NA
Overall gearing (times)	1.36	1.98	NA
Interest coverage (times)	4.07	3.35	NA

A: Audited UA: Unaudited NA: Not Applicable; Note: these are latest available financial results

Brief Financials (₹ crore)- Combined	March 31, 2023 (UA)	March 31, 2024 (UA)	9M FY25 (UA)
Total operating income	2108.23	3087.20	2650.21
PBILDT	83.65	138.70	170.01
PAT	47.98	73.98	NA
Overall gearing (times)	2.20	2.73	NA
Interest coverage (times)	3.10	2.49	NA

A: Audited UA: Unaudited 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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	227.50	CARE BBB-; Positive
Fund-based - ST-Purchase Invoice Financing		-	-	-	88.00	CARE A3

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	227.50	CARE BBB-; Positive	-	1)CARE BBB-; Positive (08-Jan-24)	1)CARE BBB-; Stable (05-Dec-22)	-
2	Fund-based - ST-Purchase Invoice Financing	ST	88.00	CARE A3	-	1)CARE A3 (08-Jan-24)	1)CARE A3 (05-Dec-22)	-

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 - ST-Purchase Invoice Financing	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Kay Kay Overseas Corporation	Full	Operational and financial linkages
2	GNG Electronics Limited	Full	Operational and financial linkages
	Subsidiaries		
3	Electronics Bazaar FZC	Full	Subsidiary of GNG Electronics Limited
	Step-Down Subsidiaries		
4	Sun Electronics Corporation, USA	Full	Step down Subsidiary of GNG Electronics Limited
5	Kay Kay Overseas Corporation, USA	Full	Step down Subsidiary of GNG Electronics Limited
6	Bright World Technologies Inc., USA	Full	Step down Subsidiary of GNG Electronics Limited
7	Electronics Bazaar B.V. Netherlands	Full	Step down Subsidiary of GNG Electronics Limited
8	Electronics Bazar INC (Canada)	Full	Step down Subsidiary of GNG Electronics Limited

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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: ankur.sachdeva@careedge.in	Krunal Pankajkumar Modi Director **CARE Ratings Limited** Phone: 079-40265614 E-mail: krunal.modi@careedge.in Raunak Modi Assistant Director **CARE Ratings Limited** Phone: +91-22-6754 3537 E-mail: raunak.modi@careedge.in Renuka Mahimkar 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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