

## K-Three Electronics Private Limited

January 15, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	9.00	CARE B+; Stable ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)on the basis of best available information
Short-term Bank Facilities	0.90	CARE A4 ISSUER NOT COOPERATING (A Four ISSUER NOT COOPERATING*)	Issuer not cooperating; on the basis of best available information
<b>Total</b>	<b>9.90</b> <b>(Rupees Nine crores ninety lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale and key rating drivers

CARE has been seeking information from K-Three Electronics Private Limited to monitor the rating(s) vide e-mail communications/ letters dated December 14, 2018, December 11, 2018, December 04, 2018, October 24, 2018, October 08, 2018, September 17, 2018, and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on M/s K-three Electronics Private Limited 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 taking into account non-availability of information due to non-cooperation by K-three Electronics Private Limited with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

The rating takes into account small scale of operations, concentrated customer base, low profitability margins and leveraged capital structure. The ratings are further constrained on account of volatility in raw material prices and KTEPL's presence in the highly competitive industry. The ratings, however, draw comfort from experienced promoters, growing scale of operations and moderate operating cycle.

### Detailed description of the key rating drivers

#### **Key Rating Weaknesses**

#### **Small scale of operations**

The scale of operations of the company has remained small marked by a total operating income and gross cash accruals of Rs.51.46 crore and Rs.1.52 crore respectively during FY17 (FY refers to the period April 01 to March 31). Further, the net worth base stood relatively small at Rs.5.46crores as on March 31, 2017. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

However, the company has witnessed growth in its total operating income over the past three years i.e. FY15-FY17 at compounded annual growth rate of 22.13% owing to higher quantity sold. Furthermore, during 9MFY17 (refers to the period April 01 to December 31; based on provisional results) the company has achieved total operating income of Rs.36.88 crore.

#### **Customer concentration risk**

The company is engaged in the manufacturing of plastic moulded components with L G Electronics India Private Limited and Samsung Electronics India Private Limited being its customers. This exposes the company's revenue growth and profitability to its customer's future growth plans. Hence, any changes in the procurement policy could adversely affect the profitability margins of the company.

<sup>2</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; on the basis of best available information

***Low profitability margins and leveraged capital structure coupled***

The PBILDT margin of the company stood low at around 5.70% for the past three financial years i.e. FY15-FY17 mainly on account of limited value addition. Further, high interest cost and depreciation charges have also restricted the net profitability of the company.

The capital structure marked by debt equity and overall gearing stood leveraged at ~2.79x and ~4.04x as on balance sheet dates of the past three financial years ending March 31, 2017 on account of debt funded CAPEX undertaken in the past coupled with high dependence on external borrowings to meet the working capital requirement. Owing to high debt levels; the coverage indicators marked by interest coverage ratio and total debt to GCA stood weak at 1.81x and 14.56x respectively for FY17.

***Volatility in raw material prices***

The key raw material is plastic granule and powder which is a crude oil derivative. Its price is dependent on crude oil prices which are highly volatile. Therefore, the operating margin of EML remains susceptible to any sharp movement in the raw material prices.

***Competitive nature of the industry***

The firm is operating in a competitive industry wherein there is presence of a large number of players in the unorganized sectors. The company is comparative a small player catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins.

**Key Rating Strengths*****Experienced promoters***

The company is being managed by Mr. Kanish Khanna and Mrs. Priyanka Marwah. Mr. Kanish Khanna has an experience of more than two decades in the manufacturing of plastic moulded components through his association with KTEPL and EML. Mrs. Priyanka Marwah has an experience of more than a decade in the industry through her association with the KTEPL and EML. KTEPL has been operating in this business for more than two decades, which aid in establishing a healthy relationship with both customers and suppliers.

***Growing scale of operations***

The scale of operation is growing continuously for the period FY15-FY17. KTEPL's total operating income grew from Rs.34.50crore to Rs.51.46crore reflecting a compounded annual growth rate (CAGR) of 22.13% owing to owing to increased sales volume due to higher demand received from existing customers. Further, the company has achieved TOI of Rs.36.88crore during 9MFY18 (refers to the period April 01 to December 31, based on provisional results).

***Moderate operating cycle***

The operating cycle of the company stood moderate as marked by 60 days for FY17. Owing to large product portfolio (different design, sizes etc.), the company is required to maintain adequate inventory of raw material for smooth running of its production processes and finished goods of all the products to meet the immediate demand of its customers resulting into average inventory holding period of around 47 days in FY17. Being in highly competitive nature of industry and dealing with reputed and large sized player which possess high bargaining power as compared to KTEPL, the company has liberal credit policies wherein it allow credit around 1-2months resulting into average collection period of 33 days in FY17. Further, the company receives payable period of around 1 month from its suppliers resulting in an average creditor's period of 20 days in FY17; combining all entails to moderate operating cycle.

**Analytical approach:** Standalone

**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for short term instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios –Non-Financial Sector](#)

***About the company***

Uttar Pradesh based KTEPL (CIN U32107DL1999PTC099043) was incorporated in 1999. KTEPL is being managed by Mr. Kanish Khanna and Ms. Priyanka Marwah. The company is engaged in manufacturing of plastic moulded components. The manufacturing facility of the company is located in Rewari, Haryana. Evershine Moulders Limited is an associate concern of KTEPL engaged in manufacturing of plastic moulded components.

Brief Financials (Rs. crore)	FY16(A)	FY17(A)
Total operating income	42.02	51.46
PBILDT	2.68	3.38
PAT	0.05	0.04
Overall gearing (times)	3.93	4.04
Interest coverage (times)	1.79	1.81

A-Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2023	3.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Non-fund-based - ST-Letter of credit	-	-	-	0.90	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	3.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	1)CARE BB-; Stable (04-May-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	1)CARE BB-; Stable (04-May-18)	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	0.90	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A4 (04-May-18)	-	-	-

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