

## K-Three Electronics Private Limited

April 30, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	9.00	<b>CARE B; stable; ISSUER NOT COOPERATING* (Single B; Outlook-Stable Issuer Not Cooperating)</b>	Issuer not cooperating; Revised from CARE B+;Stable ISSUER NOT COOPERATING* Based on best available information
Short- term Bank Facilities	0.90	<b>CARE A4; ISSUER NOT COOPERATING* ( A Four Issuer Not Cooperating)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>9.90 (Rs. nine Crore and ninety lakhs only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated Jaunaury 15, 2019, placed the rating(s) of K-Three Electronics Private Limited (KTEPL) under the 'issuer non-cooperating' category as KTEPL had failed to provide information for monitoring of the rating. KTEPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated March 28, 2020, March 30, 2020. 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.

***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

At the time of last rating on January 15, 2019, the following were the rating strengths and weaknesses:

#### **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.70.92 crore and Rs.2.07 crore respectively during FY19 (FY refers to the period April 01 to March 31). Further, the net worth base stood relatively small at Rs.4.68crores as on March 31, 2019. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

##### ***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.

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

The PBILDT margin of the company stood low at around 5.50% for the past three financial years i.e. FY17-FY19 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 ~3.45x and ~4.34x as on balance sheet dates of the past three financial years ending March 31, 2019 on account of debt funded

<sup>1</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; Based on best available information

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 1.92x and 9.81x respectively for FY19.

#### ***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 FY17-FY19. KTEPL's total operating income grew from Rs.51.46crore to Rs.70.92crore reflecting a compounded annual growth rate (CAGR) of 11.28% owing to owing to increased sales volume due to higher demand received from existing customers.

##### ***Moderate operating cycle***

The operating cycle of the company stood moderate as marked by 33 days for FY19. 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 28 days in FY19. 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 24 days in FY19.

#### **Analytical Approach: Standalone**

##### **Applicable Criteria**

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

[Criteria on assigning 'outlook' and 'credit watch' 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. KTEPL procures the raw material from local dealers and sells its products to companies such as LG electronics Private Limited and Samsung Electronics. Evershine Moulders Limited is an associate concern of KTEPL engaged in manufacturing of plastic moulded components.

	(Rs. Crore)	
Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	53.46	70.92
PBILDT	2.44	4.32
PAT	-0.91	0.11
Overall gearing (times)	4.65	4.34
Interest coverage (times)	1.14	1.92

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

**Any other information:** Not Applicable

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

**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	-	-	-	3.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* 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 B+; Stable; ISSUER NOT COOPERATING* 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	3.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (15-Jan-19) 2)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 B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (15-Jan-19) 2)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; ISSUER NOT COOPERATING* (15-Jan-19) 2)CARE A4 (04-May-18)	-

**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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### 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

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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