

Press Release

KGR Enterprises Private Limited

23 October, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 70.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short-term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs.70.00 crore bank facilities of KGR Enterprises Private Limited (KGREPL). The outlook is '**Stable**'.

KGR Enterprises Private Limited, (the erstwhile KGR Enterprises), a Mumbai-based company established in 1996 as a proprietorship firm was converted to private limited in 2013. The company is engaged in the distribution, sale and marketing of mobile phones, tablets, watches, electronic devices and accessories of reputed brands including Micromax, Apple, Titan and Casio. KGREPL, the flagship company of the KGR Group was founded by Mr. Kailash Karamchandani. The group also caters to markets in Hong Kong and Dubai.

KGR Enterprises Private Limited (KGREPL) is the regional distributor for Apple in Mumbai and Thane regions and for Casio watches in Navi Mumbai and Thane.

List of key rating drivers and their detailed description

Strengths:

Established track record and experienced management

KGREPL has an established operational track record of two decades. The company commenced operations in 1996. The Directors, Mr. Kailash Karamchandani and Mrs. Rhea Karamchandani collectively possess more than two decades of experience in the said business.

Healthy financial risk profile: The financial risk profile is healthy marked by networth of Rs. 43.06 crore as on 31 March, 2017 (Provisional) as against Rs.32.48 crore in the previous year. The gearing stood at 0.64 times on 31 March, 2017 (Provisional) as against 0.63 times in the previous year. The Interest coverage ratio (ICR) stood at 2.75 times for FY2017 (Provisional) as against 1.66 times in FY2016. The total liabilities to tangible networth (TOL/TNW) stood at 1.34 times as on 31 March, 2017 (Provisional) as against 1.52 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.23 times as on 31 March, 2017 (Provisional) as against 0.09 times in the previous year. The Return on capital employed (RoCE) stood at 15.53 per cent in FY2017 (Provisional) as against 9.35 per cent in FY2016. Further, SMERA expects that going forward, the company will maintain its financial risk profile on account of healthy accruals.

Healthy growth in revenue: KGREPL has reported healthy revenue growth with compounded annual Growth rate (CAGR) of around 39 percent during the last four years ended 31 March, 2017. The company reported significant revenue growth of ~68 per cent with operating income of Rs. 407.88 crore in FY2017 (Provisional) as against revenue growth of ~7 per cent with operating income of Rs. 243.42 crore in FY2016. The growth in FY2017 was on account of increase in sales to existing customers and

high demand for mobile handsets and accessories of Apple, Huawei and Jio. The company deals in Apple, Huawei Honor, Samsung, Reliance among other brands and has regional distributorship for Apple in Thane and Mumbai. The Apple brand contributed around 52 per cent to total sales in FY2017 as against 66.89 percent in the previous year.

Weaknesses:

Thin profitability: KGREPL registered thin profitability of 2.40 per cent in FY2017 (Provisional) as compared to 1.81 per cent in FY2016. Further, the Profit after tax (PAT) margin stood at 1.48 per cent in FY2017 compared to 0.70 percent in FY2016. This is mainly on account of the trading nature of operations. However, the company reported improvement in operating margin in FY2017 due to addition of higher margin products in its product profile like Apple watches.

Customer concentration risk: KGREPL is exposed to customer concentration risk as ~54 per cent of its revenue is derived from a single customer - Priyanka Communication India Private Limited located at Mumbai.

Highly competitive and fragmented industry: The company operates in an industry which is characterised by intense competition leading to thin profit margins. Further, the industry is also subject to technology changes and customer preferences.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that the outlook on KGREPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience and established presence in the industry. The outlook may be revised to 'Positive' in case of significant growth in revenue and improvement in profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or elongation of working capital cycle.

About the Rated Entity -Key Financials

For FY2016-17 (Provisional), KGREPL reported profit after Tax (PAT) of Rs. 6.03 crore on operating income of Rs. 407.88 crore as against PAT of Rs. 1.69 crore on operating income of Rs. 243.42 in the previous year. The net worth stood at Rs. 43.06 crore as on 31 March, 2017 as against Rs. 32.48 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A	N.A	N.A.	20.00	SMERA BBB-/Stable (Assigned)
Cash Credit	N.A	N.A	N.A.	8.00	SMERA BBB-/Stable (Assigned)
Letter of Guarantee	N.A	N.A	N.A.	8.00	SMERA A3 (Assigned)
Proposed Cash Credit	N.A	N.A	N.A.	22.00	SMERA BBB-/Stable (Assigned)
Proposed Letter of Guarantee	N.A	N.A	N.A.	12.00	SMERA A3 (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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