

Ever Electronics Private Limited

January 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	6.00	5.00	[ICRA]B+(Stable), Upgraded from [ICRA]B and Removed from 'Issuer Not Cooperating' category
Non-fund based-Bank Guarantee	11.82	7.00	[ICRA]A4; Reaffirmed, and Removed from 'Issuer Not Cooperating' category
Unallocated	9.18	15.00	[ICRA]B+(Stable) Upgraded from [ICRA]B and [ICRA]A4 Reaffirmed; and Removed from 'Issuer Not Cooperating' category
Total	27.00	27.00	

Rating action

ICRA has upgraded the long-term rating to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]B (pronounced ICRA B) to the Rs. 5.00-crore fund-based facility of Ever Electronics Private Limited (EEPL or the company) ¹ and has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 7.00-crore² non-fund based facility. ICRA has also upgraded the long-term rating of [ICRA]B+ and has reaffirmed the short-term rating of [ICRA]A4 to the Rs. 15.00-crore unallocated facility of EEPL. The outlook on the long-term rating is Stable. The rating has also been removed from the 'Issuer Not Cooperating' category.

Rationale

The long-term rating upgrade takes into consideration the increasing scale and improvement in cost structure which has led to recovery from losses in FY2017. Further in H1FY2018, the company has diversified its product profile to manufacture printed circuit boards (PCBs) used in automotive sector which has led to improved sales momentum in the current fiscal. The rating continues to take into account the long-standing experience of promoters and the company's track record with its major principal LG Electronics India Private Limited (LG) for which it is a sole supplier for Pune region. With LG generating ~95% of the total revenues of EEPL, there is low counter party credit risk and a favourable working capital cycle due to prompt realisations and credit period available from LG and LG approved suppliers which has helps the company function without working capital debt. As EEPL is a supplier of PCBs used in consumer electronics like Televisions, LCDs, Refrigerators, the positive outlook for consumer durables goods industry driven by a widening middle class it is expected to provide revenue growth potential.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

The ratings, however, continue to remain constrained by high client concentration risk as majority of the revenues (~95%) are generated from LG, which exposes the company's operations to performance of its principal. The company also has limited bargaining power and pricing flexibility vis-à-vis its major customer (LGEIL) and its raw material suppliers which has resulted in pressures on operating margins. The accumulated net losses have led to the depletion of net worth base leading to strain on the capital structure and adverse total outside liabilities to net worth ratio. EEPL also faces the risk of technology obsolescence, though it is partly mitigated by introduction of new product lines and constant upgradations as per market demand. The rating also takes note of the highly competitive and fragmented nature of telecom and electronics component manufacturing business due to presence of various players which limits the ability to significantly scale up operations.

Going forward, any decline in market share of LG Electronics could negatively impact EEPL's revenue growth. Diversification in new product lines and new customers will positively impact the operating scale and mitigate concentration risks.

Outlook: Stable

ICRA believes EEPL will continue to benefit from the extensive experience of its promoters and operational comfort from being the sole supplier for LG Pune. The outlook may be revised to Positive if substantial growth in revenue and stable profitability is reported with diversification into new product lines strengthens the financial risk profile. The outlook may be revised to Negative if there is a decline in market share of LG Electronics impacting revenues of EEPL, or any strain on the capital structure or the working capital profile which may weaken the overall financial profile of the company.

Key rating drivers

Credit strengths

Promoters experience in the electronics industry and long-established relations with a reputed OEM – The company was taken over by a new management in December 2013. The current Managing Director; Mr. H.C. Sim is a graduate with over 8 years of industrial experience in Korea and over 6 years of manufacturing PCBs in India. He has vast technical experience in manufacturing and assembly as well as procurement and marketing which has been instrumental in gaining new businesses from LG for manufacturing PCBs used in air conditioners, washing machines and microwave ovens and maintaining healthy relationships with LG.

Sole supplier of LG for Pune region; low counter party credit risk – The company is a single source supplier for LG Electronics, Pune for Colour Televisions, LCD Televisions, DVD players and other electronic equipments. The company is now developing PCBs for Smart TVs of LG. LG has remained the largest contributor to EEPL's revenue (~95%) in the last three years. The key competitive advantage for the company is its long relation with such reputed players and the fact that it is a sole supplier of LG for Pune region which limits counter-party credit risk and assures a stable sales off-take. LG Electronics India Private Limited is one of India's leading players in the consumer-durables industry, with sustained market leadership in the refrigerator, washing machine, and air conditioner (AC) segments, and a strong market position in the panel television segment. Customers like LG have stringent induction process for including a new supplier which also acts as an entry barrier for new entrants.

Increasing scale and improvement in cost structure has led to recovery from net losses in FY2017; the company has diversified its product profile to manufacturing printed circuit boards used in auto which has reflected in improved sales momentum in H1FY2018 - The company has been able to utilize its existing capacity better in FY2017 with new variants in existing product categories leading to 20.1% growth in FY2017. The company has started supplying PCBs to automobile industry as a part of its diversification strategy in FY2016 which led to addition of reputed auto ancillary players in the customer profile. While the share of automotive sector is less than 5% of the total revenues currently, it is expected to grow going forward. Higher value-added PCBs which command better realisations have led to improvement

in operating margins. Scaling up of operations has led to better absorption of overheads and has led to recovery from net losses in FY2017.

Favourable working capital cycle, no working capital debt on books - The production is entirely order backed and based on the monthly production and delivery schedule given by LG at monthly indicative price. LG switches between job work and sales basis contracts with the company. Starting FY2016, LG has decided to award everything on sales basis except for LCD and Smart TV PCBs which would be completely on job work basis. In case of job work, the working capital cycle remains lean due to lower inventory holding requirements. On the other hand, operations on sales basis typically have higher inventory requirements. The company's working capital position is comfortable with prompt realisations from its key customer and credit period extended for its procurements from LG or approved suppliers while inventory is stocked for ~1 month. As of September 2017, there is no working capital debt on books.

Positive outlook for consumer durables goods industry driven by a widening middle class, provides strong revenue growth potential - Consumer durables or light electricals market in India grew at a CAGR of 11% between FY2012-2017. Urban markets account for the major share (65%) of total revenues in the consumer durables sector in India. There is a lot of scope for growth from rural markets with consumption expected to grow in these areas as penetration of brands increases. Also demand for durables like refrigerators as well as consumer electronic goods are likely to witness growing demand in the coming years in the rural markets as the government plans to invest significantly in rural electrification which provides revenue prospects for EEPL.

Credit weaknesses

Risk associated with single client concentration where ~95% of the revenue is generated from LG Electronics India Private Limited - The company over the years has derived ~95% of the sales from LG which makes the company susceptible to concentration risk. Though LG India is one of India's leading players in the consumer-durables industry, any decline in market share or shift of part of operations out of India poses risk to the company.

Limited bargaining power and pricing flexibility vis-à-vis its major customer (LG) and raw material suppliers has resulted in pressures on profitability margins - LG dominates in fixing the prices of raw materials, as either the same are supplied by LG or it is to be obtained from approved suppliers of LG. Final sales to LG is at fixed price defined on a monthly rolling basis, ensuring fixed contribution margins to EEPL. The company's concentrated customer base and LG being a large player in relation to operations of EEPL, there is limited bargaining power and pricing flexibility.

Risk of technology obsolescence, though partly mitigated by introduction of new product lines - The risk of technology obsolescence is prevalent in the consumer electronics industry. The company has halted assembling PCBs used in CRT TV production as the demand for LCD/LED TV PCBs has been on the rise. The company is now developing PCBs for Smart TVs of LG which are advanced version of LCD/LED TV.

Highly competitive and fragmented nature of telecom and electronics component manufacturing business - The electronics component manufacturing business is highly competitive and fragmented due to presence of various players and new entrants. However, EEPL is an approved supplier and has an association of over a decade with its key customer LG which is a highly reputed and established player in the industry they operate in.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 2004, EEPL assembles PCBs for Colour Televisions, LCD Televisions, DVD players, refrigerators and other electronic equipment of LG. The company has also diversified into PCB manufacturing for automobile industry and is supplying to auto ancillary players in Pune. The company is owned by Vision Creative Limited (VCL), which is a Hong Kong based company which was acquired by new management hence giving them ownership of EEPL in December 2013.

In FY2017, the company reported a net profit of Rs. 2.85 crore on an operating income of Rs. 141.45 crore, as compared to a net loss of Rs. 3.86 crore on an operating income of Rs. 117.79 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	117.79	141.45
PAT (Rs. crore)	-3.86	2.85
OPBDIT/ OI (%)	2.63%	3.79%
RoCE (%)	13.63%	41.69%
Total Debt/ TNW (times)	-7.65	3.19
Total Debt/ OPBDIT (times)	5.12	1.05
Interest coverage (times)	1.61	3.42
NWC/ OI (%)	-9.33%	-10.03%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating January 2018	Date & Rating in FY2018 November 2017@	Date & Rating in FY2017 October 2016
1 Term Loan	Long Term	5.00	5.00	[ICRA]B+ (Stable)	[ICRA]B ISSUER NOT COOPERATING	[ICRA]B
2 Bank Guarantee	Short Term	7.00	7.00	[ICRA]A4	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4
3 Unallocated	Long Term/ Short Term	15.00	15.00	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B/A4 ISSUER NOT COOPERATING	[ICRA]B/A4

@ ICRA has moved the rating of EEPL to the 'ISSUER NOT COOPERATING' category due to non-submission of monthly 'No Default Statement' ("NDS") by the entity in November 2017.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	12.90%	FY2020	5.00	[ICRA]B+(Stable)
NA	Bank Guarantee	NA	NA	NA	7.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	15.00	[ICRA]B+ (Stable)/A4

Source: Ever Electronics Private Limited

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