

Dhanashree Electronics Limited

March 02, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	13.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	8.50	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	21.50 (Rs. Twenty-One Crore and Fifty Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Dhanashree Electronics Limited (DEL) continues to be constrained by modest scale of operations, moderate capital structure, weak debt protection metrics and working capital intensive operations with stretched operating cycle of the group. However, the ratings continue to draw strength from the experienced promoters with long track record of operations, satisfactory brand image in Eastern region, long standing relationship with reputed principal suppliers, established distribution network and satisfactory financial performance in FY20.

Positive Sensitivity

- Improvement in PAT margin above 4% on a sustainable basis.
- Improvement in overall gearing ratio below 1.5x and TD/GCA below 10x.
- Improvement in operating cycle below 200 days on sustained basis.

Negative Sensitivity

- Reduction in PAT margin below 2% on a sustained basis.
- Elongation in operating cycle beyond 500 days

Detailed description of the key rating drivers

Key Rating Weakness

Modest scale of operations

Despite being in the business for over five decades, the company's scale of operations remained modest with revenue of Rs.45.87 crore in FY20 (Rs.43.76 crore in FY19), the increase in the revenue is majorly because of increase in revenue from trade of goods. The small size restricts the financial flexibility of the company in times of stress and deprives it from benefits of economies of scale.

Modest capital structure and weak debt protection metrics

Overall gearing ratio, though improved, remained moderate at 1.31x as on March 31, 2020. TD/GCA though improved but remained high from 14.44x in FY19 to 12.48x in FY20 due to reduction in unsecured loan. Interest coverage improved due to decrease in interest expense. The company has also availed a Covid term loan of Rs.2.58 crore during H1FY21.

Working capital intensive nature of operations with stretched operating cycle

The company's working capital intensiveness is marked by high inventory holding and collection period. The company purchases in larger quantity from its principal suppliers in order to claim a bulk purchase discount from them resulting in higher average inventory holding period of 356 days in FY20 (331 days in FY19).

It had an average collection period of 216 days. This includes around Rs.11 crore due from Dakshinachal Vidyut Nigam Limited. The company has received the arbitration order in its favour. Both the parties are negotiating an out of court settlement and the management expects to receive the amount by Q1FY22. The company's operating cycle remained high though it has improved from 503 days in FY19 to 496 days in FY20.

Presence in highly competitive electrical equipment industry

The electrical market is highly fragmented with the presence of a large number of unorganized players in India constraining the pricing power of organized sector players. There is high competition within the industry due to low entry barriers. Apart from unorganized sector, the group also faces competition from organized sector players.

Key Rating Strengths

Experienced promoters with long track record of operations

The promoters, Mr. Madan Gopal Toshniwal, and Mr. Surya Prakash Toshniwal have experience of more than five decades in the industry. The promoters have been infusing funds in the form of equity share capital and unsecured loans to support the capex and working capital requirements.

Established market position with brand name and long standing relationship with principal suppliers

DEL manufactures and markets its products under the brand name of “Rashmi Lighting” which is a known brand in the lighting industry in the Eastern India. DEL also manufactures products for other OEMs like Panasonic, Karuna Greentech Private Limited (Nordusk), Syska LED, Khaitan, etc. Also, over the years, the company has established a strong relation with some of the reputed electronic products brands namely Philips India Limited (PIL), Bajaj Electricals Limited, Havells India Limited, Schneider Electric, RR Cables, Crompton Greaves Consumer Electricals Limited, etc.

Established distribution network

DEL sells the products either directly or through the network of Ladhuram Toshniwal & Sons (LTS; a group entity). The Group has an established distributor network for retail sales apart from selling directly to government institutions. Apart from that, the company also does assembly work for private OEMs. The Group sells through a network of over 2000 dealers, distributors and retailers.

Satisfactory financial performance in FY20 and 9MFY21

The income from operations increased from Rs. 43.76 crore in FY19 to Rs. 45.87 crore in FY20 majorly because of increased sales from traded goods. However, the operating margin of the entity declined from 20.16% in FY19 to 18.87% in FY20 on account of increase in the cost of traded goods. However, PAT margin remained stable at 5.80% in FY20. GCA stood at Rs.2.96 crore in FY20 vis-à-vis Rs.2.88 crore in FY19.

In 9MFY21 the income from operation stood at Rs.25.06 crore with PBILDT of Rs.4.39 crore and PAT of Rs.0.84 crore.

Liquidity: Adequate

The liquidity position continues to be adequate which is marked by Rs.2.96 crore in accruals vis-à-vis nil repayment obligations for the FY20. The company has availed Covid loans amounting to Rs. 2.58 crore in FY21 against which scheduled principal repayment of Rs.0.80 crore is there in FY22. The same is expected to be repaid through company’s cash flows.

Analytical approach: Standalone

Applicable criteria

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Facilities](#)

[CARE’s methodology for wholesale trading companies](#)

About the Company

Incorporated in 1987, Dhanashree Electronics Limited is involved in design and manufacturing lighting products in the brand of “Rashmi”, which includes copper choke, LED Lamps, LED Home Decorative Lights, CFL, Tube Lights, Street Lights, Outdoor Flood Light, Solar Lights etc. with manufacturing facilities situated in Saltlake, Kolkata. DEL also manufactures products for other OEMs like Karuna Greentech Private Limited, Syska LED Lounge etc. DEL also caters to government orders by bidding tenders for electronic products in the states of Telangana and Uttar Pradesh. The day to day affairs are being looked after by Mr. Madan Gopal Maheshwari.

Financials (Standalone)

Brief Financials(Rs. Crore)	FY19(A)	FY20(A)
Total operating income	43.76	45.87
PBILDT	8.82	8.66
PAT	2.52	0.84
Overall gearing(times)	1.63	1.31
Interest Coverage(times)	1.65	1.70

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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
Non-fund-based - ST-Letter of credit	-	-	-	8.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	13.00	CARE BB; Stable
Non-fund-based - ST-Proposed non fund based limits	-	-	-	0.50	CARE A4

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.	Non-fund-based - ST-Letter of credit	ST	8.00	CARE A4	-	1)CARE A4 (25-Feb-20)	1)CARE A4 (15-Oct-18) 2)CARE A4 (04-Oct-18)	-
2.	Fund-based - LT-Cash Credit	LT	13.00	CARE BB; Stable	-	1)CARE BB; Stable (25-Feb-20)	1)CARE BB; Stable (15-Oct-18) 2)CARE BB; Stable (04-Oct-18)	-
3.	Non-fund-based - ST-Proposed non fund based limits	ST	0.50	CARE A4	-	1)CARE A4 (25-Feb-20)	1)CARE A4 (15-Oct-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple
3.	Non-fund-based - ST-Proposed non fund based limits	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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