

Dhanashree Electronics Limited

October 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	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 instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Dhanashree Electronics Limited (DEL) continues to remain constrained by its small scale of operations, moderate capital structure and debt protection metrics, elongated operating cycle and intensive competitive nature of industry. The ratings also take into account stable financial performance during FY21 (refers to the period April 01 to March 31) and Q1FY22 inspite of covid-19 pandemic. However, the ratings continue to derive strength from experienced management & satisfactory track record of operation, established market position with brand name and long-standing relationship with principal suppliers and established distribution network.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PAT margin above 6% on a sustainable basis
- Improvement in overall gearing ratio below 1x and TD/GCA below 10x
- Improvement in operating cycle below 200 days on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The scale of operations of the company continues to remain small marked by total operating income of Rs.42.25 crore in FY21 as against Rs.45.59 crore in FY20. The small size restricts the financial flexibility of the company in times of stress and deprives it from benefits of economies of scale.

Moderate capital structure and debt protection metrics

The capital structure of the company continues to remain moderate in spite of slight moderation in overall gearing to 1.49x in FY21 as against 1.31x in FY20 on account of infusion of unsecured loans and avilment of covid loan. The PBILDT interest coverage ratio stood at 1.60x in FY21 as against 1.70x in FY20 on account of decline in operating profits.

Elongated operating cycle

There has been deterioration in the inventory cycle and debtor days during FY21 to 442 days and 252 days from 360 days and 216 days respectively. The increase in debtors and inventory period was partially offset by higher creditors period. The debtors collection period is high as it includes around Rs.11 crore due from Dakhinachal Vidyut Nigam Limited. The company has received the arbitration order in its favour (amount recoverable as per arbitration order including interest: Rs.26 crore). Both the parties are negotiating an out of court settlement and the management expects to receive the amount during FY22.

Intensive competitive nature of 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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Strengths**Experienced management & satisfactory track record of operation**

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 from commercial parties 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, Bosch 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.

Stable financial performance during FY21 and Q1FY22

The company has generated total operating income of Rs.42.25 crore in FY21 as against Rs.45.59 crore in FY20 amid covid-19 hit year. Although the company’s operating margins have declined from 18.99% in FY20 to 15.39% in FY21 on account of higher raw material costs and selling expenses, it continues to remain at satisfactory levels. In line with PBIDT margins, PAT margins have also declined from 5.84% in FY20 to 3.95% FY21.

During Q1FY22, the company has generated operating profit of Rs.1.53 crore on an operating income of Rs.7.84 crore. The sales were impacted in Q1FY22 due to second wave of Covid-19.

Liquidity: Stretched

The gross cash accruals stood at Rs.2.13 crore during FY21 vis-à-vis nil debt repayment obligation. The cash and bank balance stood at Rs.0.09 crore as on March 31, 2021. The average monthly working capital utilization stood at around 93% for the last 12 months ended July 2021 with almost maximum utilization of limits. The promoters had infused funds amounting to Rs.4.87 crore in FY21 by way of unsecured loans to fund inventory. The company had also taken Covid Loans of Rs.2.58 crore during FY21, the repayment of which has started June’21 onwards. The loan is to be repaid over a period of 3 years. In Q1FY22, the company has repaid the unsecured loans brought in FY21 through reduction of inventory and receivables. In FY22, the company’s debt repayment obligations stand at Rs.0.66 crore.

Analytical approach: Standalone**Applicable Criteria**

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Wholesale Trading](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Incorporated in 1987, Dhanashree Electronics Limited (DEL) 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 Panasonic, Karuna Greentech Private Limited (Nordusk), Syska LED, Khaitan, Magik (Century LEDs) etc. The company also is in talks with Bajaj, Eveready and Philips for OEM business. DEL also caters to government orders by bidding tenders for electronic products in several states. The day-to-day affairs are being looked after by Mr. Madan Gopal Maheshwari.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	45.59	42.25
PBILDT	8.66	6.50
PAT	2.66	1.67
Overall gearing (times)	1.31	1.49
Interest coverage (times)	1.70	1.60

A: Audited

Status of non-cooperation with previous CRA: CRISIL continues to place the ratings of Dhanashree Electronics Limited under Issuer Not Cooperating category vide Press Release dated December 24, 2020.

Any other information: Not Applicable

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	ISIN	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-Letter of credit	ST	8.00	CARE A4	-	1)CARE A4 (02-Mar-21)	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 (02-Mar-21)	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 (02-Mar-21)	1)CARE A4 (25-Feb-20)	1)CARE A4 (15-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of 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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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