Dhanashree Electronics Limited

February 25, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[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	**21.50 (Rs. Twenty one crore and fifty lakh 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 and weak debt protection metrics in FY19 (refers to the period April 01 to March 31) 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 FY19 and H1FY20.

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 group's scale of operations remained modest with combined revenue of Rs.133 crore in FY19 (Rs.110.00 crore in FY18). The small size restricts the financial flexibility of the company in times of stress and deprives it from benefits of economies of scale.The group has reported combined revenue of Rs.69 crore in H1FY20.

Modest capital structure and weak debt protection metrics

The group does not have any term debt from banks, apart from unsecured loans from commercial parties. Overall gearing ratio, though improved, remained moderate at 2.28x as on March 31, 2019. Higher debt coupled with modest cash profits, resulted in vulnerable total debt/GCA at 30.61x as on March 31, 2019. Interest coverage deteriorated due to increase in interest expense.

On a standalone basis, overall gearing ratio of DEL remained moderate at 1.63x as on March 31, 2019 (1.72x as on March 31, 2018) and total debt/GCA deteriorated to 14.44x as on March 31, 2019 as against 13.69x as on March 31, 2018.

Working capital intensive nature of operations with stretched operating cycle

The group's working capital intensiveness is marked by high inventory holding and collection period. It had an average collection period of 169 days and inventory holding period of 288 days in FY19. Collection period stood high in view of sale to Government undertakings mainly Dakhinachal Vidyut Nigam Limited (DVNL), wherein the receivables stood high (approximately Rs.10 crore as on March 31, 2019). DEL filed application on July 04, 2018 before West Bengal Micro Small Enterprises Facilitation Council (WBMSEFC) for recoveries of dues from DVNL. DEL expects to recover the outstanding amount by March 31, 2020, as the order has been passed in favour of the company. Debtors balance is expected to reduce going forward. However, the inventory holding remained on the higher side in view of wide range of stock holding for direct sales.

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

Promoted by Mr. Madan Gopal Toshniwal, Mr. Surya Prakash Toshniwal and others, the LTS group has track record of more than five decades in the industry namely electronic products. The group is into both manufacturing as well as trading of various electronic products through their companies Dhanashree Electronics Limited (DEL) and Ladhuram Toshniwal and Sons (Prop. Ladhuram Toshniwal & Sons Electricals Private Limited) (LTS) respectively.

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

The group 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. Also, over the years, they have 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. It has been distributing PIL products since more than five decades and has been ranked as the distributor with highest turnover for more than 35 years by PIL. Further, the group is also involved in the distribution of audio products which include speakers, microphones, audio players etc. for Bosch, Harman International (India) Pvt. Ltd. The distribution business is carried on through LTSEPL.

Established distribution network

LTSEPL has an established distribution network. Sale is made through channel partners (50%) and direct sale (50%). In direct sale, products are sold directly to customers in the professional category mainly for office lighting purpose, project related work, and home decoration etc. These are high value high margin products in wide range (over 500 types), for which the group also has to maintain high inventory. In sale through channel partners, the group sells through a network of over 2000 dealers, distributors and retailers. These are low value low margin products sold in bulk, for which the group has to maintain low inventory level. DEL sells the products either directly, or through the network of LTSEPL.

Satisfactory financial performance in FY19 and H1FY20

The operating margin of the combined entity was satisfactory in FY19 at 13%. However, PAT margin was low due to high capital charge. GCA stood at Rs.3.77 crore in FY19 vis-à-vis Rs.3.54 crore in FY18. In H1FY20, the group has earned PBILDT and PAT of Rs.5.43 crore and Rs.1.82 crore on total operating income of Rs.69.41 crore.

On a standalone basis, DEL earned PBILDT of Rs.8.82 crore and PAT of Rs.2.52 core on total operating income of Rs.43.76 crore in FY19. In H1FY20, DEL earned a PBILDT of Rs.3.30 crore and PAT of Rs.1.34 crore on total operating income of Rs.18.79 crore.

Liquidity: Adequate

The liquidity position of the company continues to be adequate which is marked by Rs.3.77 crore in accruals vis-à-vis nil repayment obligations and moderate cash balance of Rs.7.33 crore as on March 31, 2019. The current ratio was seen at 2.61x as on March, 2019. However, CC limit utilisation remained almost full during the last 12 months.

Analytical approach: Combined financials of Dhanashree Electronics Limited and Ladhuram Toshniwal & Sons Electricals Private Limited as both the companies have common management operational linkages and are involved in similar line of business. Also, DEL holds shares in LTSEPL and has also extended corporate guarantee to the bank facilities of LTSEPL.

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)	FY18(A)	FY19(A)
Total operating income	54.48	43.76
PBILDT	8.09	8.82
PAT	2.46	2.52
Overall gearing(times)	1.72	1.63
Interest Coverage(times)	1.81	1.65

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Not Applicable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Letter of credit	ST	8.00	CARE A4	-	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 (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 (15-Oct-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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

Media Contact
Mradul Mishra
Tel # +91-22-6837 4424
Email: mradul.mishra@careratings.com

Analyst Contact:
Name: Richa Bagaria
Tel # 033-4018 1653
Email: richa.jain@careratings.com

Business Development Contact
Lalit Sikaria
Tel # +91-33-4018 1607
Email: lalit.sikaria@careratings.com

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