

Dhanashree Electronics Limited

October 04, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	5.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short term Bank Facilities	10.00	CARE A4 (CARE A four)	Assigned
Total Facility	15.00 (Rupees Fifteen crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dhanashree Electronics Limited (DEL) is constrained due to modest scale of operations, moderate capital structure and weak debt protection metrics and working capital intensive operations with stretched operating cycle of the group. However, the rating draws strength from the experienced promoters with long track record of operations and continuous capital infusion, established market position with brand name and long standing relationship with reputed principal suppliers and financial performance marked by healthy profitability.

The group's ability to scale up operations while maintaining profitability and improving the debt protection metrics along with improvement in working capital cycle would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: The scale of operations of group is small with combined revenue of Rs.115 crore in FY18 (Rs.130 crore in FY17). The revenue moderated in FY18 (prov.) due to the duty hike on the components imported in February 2018. The small size restricts the company's ability in times of stress.

Working capital intensive nature of operations with stretched operating cycle: The group's working capital intensive nature of operations is marked by high inventory and collection from debtors. Further, there has been a sharp increase in inventory period in FY18 on account of bulk purchases made during the end of Q3FY18 from suppliers which took time to liquidate thereby increasing the closing inventory balances. Accordingly the operating cycle of the group remained high and increased from 224 days in FY15 to 385 days in FY18 mainly led by sharp rise in both inventory and debtors days.

However, the group makes purchases in larger quantity from its principal suppliers for its trading unit in order to claim a bulk purchase discount which ultimately helps them garner better margins.

Key Rating Strengths

Experienced Promoters with long track record of operations and continuous capital infusion: 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.

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: 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 East. 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, Schneider Electric etc., which supports building a healthy market position and a stable business risk profile. 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 by the group in LTSEPL.

Financial performance marked by healthy profitability, modest capital structure and weak debt protection metrics: Despite deriving a substantial part of revenue from trading operations, the profitability position of the group remained

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

healthy, due to strong margins earned in manufacturing operations and due to bulk buying made by the group. PBILDT margin has been improving since FY15, from 5.57% to 13.69% in FY18 due to increase in proportion of manufactured goods coupled with change in buying policy of the company in respect to traded goods, wherein, now the group is focussing on bulk buying to get better discounts. Accordingly, interest coverage also improved over the years despite increasing interest expenses.

The group does not have any term debt from banks, apart from unsecured loans from related parties. Further, the total debt of the group although high; majorly constitutes of unsecured loans. Accordingly overall gearing stood at 2.30x as on Mar'18 (as against 1.93x as on Mar'17). Higher debt coupled with modest cash profits, resulted in high total debt/GCA at 23x in FY18 (30x in FY17).

Analytical approach: Combined financials of Dhanashree Electronics Limited (DEL) and Ladhuram Toshniwal & Sons Electricals Private Limited (LTSEPL) 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

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

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for trading companies](#)

[Rating Methodology – Manufacturing Companies](#)

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

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. The current day to day affairs are being looked after by Mr. Madan Gopal Maheshwari. It mainly caters to fulfill government orders by bidding tenders for electronic products in the states of Telangana and Uttar Pradesh.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Prov.)
Income from continuing operations	130.31	115.12
PBILDT	13.48	15.76
PAT	2.39	3.58
Overall Gearing (times)	1.93	2.30
Interest coverage (times)	1.36	1.53

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A4	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB; Stable	-	-	-	-

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