

December 19, 2022

Dawntech Electronics Pvt Ltd: [ICRA]A(CE)(Stable)/[ICRA]A1(CE) rating withdrawn and fresh rating of [ICRA]BBB (Stable)/ [ICRA]A3+ assigned, rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------|--------------------------------------|-------------------------------------|--|
| Working Capital Facilities | 600.00 | 2000.00 | [ICRA]BBB (Stable)/ [ICRA]A3+; assigned; earlier ratings of [ICRA]A(CE)(Stable)/[ICRA]A1(CE) withdrawn |
| Total | 600.00 | 2000.00 | |

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn its rating of [ICRA]A (CE) (Stable)/[ICRA]A1 (CE) for the bank facilities of Dawntech Electronics Pvt Ltd (DEPL) and has simultaneously assigned a fresh rating of [ICRA]BBB (Stable)/[ICRA]A3+ for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings¹. Among other considerations, the [ICRA]A(CE)/[ICRA]A1(CE) rating drew comfort from the presence of a corporate guarantee extended by DEPL's parent to the lenders of the rated bank facilities. For assigning the ratings, ICRA had assessed the attributes of the guarantee issued by Sattva Developers Private Limited (SDPL) in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met all the attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism. Considering the same, ICRA had assigned a rating of [ICRA]A (CE)/[ICRA]A1 (CE) to the said facility against the unsupported rating of [ICRA]BBB/[ICRA]A3+ [and in relation to the guarantor's rating of [ICRA]A (Stable)²].

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison with support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB (Stable)/ [ICRA]A3+ to the above bank facilities of DEPL, while withdrawing the [ICRA]A (CE)/[ICRA]A1 (CE) rating.

ICRA notes that DEPL and its parent Sattva Developers Private Limited (SDPL; rated [ICRA]A+ with Stable outlook), have close business linkages and DEPL is of strategic importance to its parent. Therefore, ICRA expects SDPL to be willing to extend timely financial support to DEPL, as and when needed. There also exists a consistent track record of SDPL having extended timely financial support to DEPL in the past. DEPL's ratings factor in the above strengths, arising from a parent with a relatively stronger credit profile, even as the benefit of the guarantee extended by the parent has been ignored.

The assigned ratings are based on the expected healthy scale of operations of around Rs. 5,000-5,200 crore in FY2023, which will be its first full year of operations for the company at operating margins of around 2.0%-2.2%. DEPL recently enhanced its

¹ The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.

² Rating of guarantor as per rationale dated February 4, 2022, for DEPL

working capital limits, which will support its growth prospects in the medium term. It has established relationships with brands such as Samsung, LG, Xiaomi, Oneplus and Oppo and is catering extensively to TVs, refrigerators, sound systems, electronics, speakers, ACs and other household goods. The company also enjoys and high financial flexibility by way of support extended from the Group and its promoters in the form of unsecured loans, margin and collateral security required for availing credit limits.

The ratings are, however, constrained by DEPL's modest financial risk profile, characterised by low profitability and high working-capital intensive nature of trading business with the limited track record of operations for large appliances category. However, the Group has more than five years of track record of operations as on online retailer through Amazon in the Group company, Darshita Aashiyana Private Limited (in mobile phones). The utilisation of working capital lines remains volatile, peaking during the festive season, sales events or any new launches. Further, the inventory holding period is high due to operations in large appliances, which is supported by working capital limits and credit period extended from the brands. The ratings are further constrained by the intense competition faced by DEPL from other sellers on the online marketplace, and also from offline retailers, alongside the low customer loyalty on the online platforms for e-commerce business. The online retail industry remains exposed to regulatory interventions, which can alter the competitive landscape significantly and remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA's opinion that DEPL will continue to benefit from healthy brand diversification and significant financial flexibility enjoyed, being a part of the Sattva Group.

Key rating drivers and their description

Credit strengths

Strong promoter profile - DEPL is fully held by the promoters of the Sattva Group, having extensive experience across sectors like real estate, trading, hospitality and education and established track record of more than 36 years. As a part of the Group, DEPL enjoys significant financial flexibility by way of support extended from the Group and its promoters. In the past, the Group/promoters have extended support to DEPL in the form of unsecured loans, margin and collateral security required for availing credit limits.

Healthy scale of operations expected in FY2023 and brand diversification - In 8MFY2023, the company reported revenues of around Rs. 3,993 crore and is expected to do Rs. 5,000-5,200 crore in FY2023, which will be its first full year of operations with operating margins of 2.0%-2.2%. It has established relationships with brands such as Samsung, LG, Xiaomi, Oneplus and Oppo and is catering extensively to TVs, refrigerators, sound systems, electronics, speakers, ACs and other household goods. DEPL also recently enhanced its working capital limits, which will support the growth prospects in medium term.

Credit challenges

Limited track record of operations and high working capital requirements - DEPL's operations started in September 2021, and it has a limited track record of operations for large appliances category. However, the Group has more than five years of track record of operations as on online retailer through Amazon in the Group company, Darshita Aashiyana Private Limited (in mobile phones). The company has a modest financial risk profile, characterised by low profitability and high working capital-intensive nature of the trading business. The utilisation of working capital lines remains volatile, peaking during the festive season, sales events or any new launches. The inventory holding period is high due to operations in large appliances, which is supported by its working capital limits and credit period extended from the brands.

Stiff competition and regulatory risks in e-commerce business - The company faces intense competition from other sellers on the online marketplace, and from offline retailers, alongside the low customer loyalty on online platforms for e-commerce business. The online retail industry remains exposed to regulatory interventions, which can alter the competitive landscape significantly and remains a key rating monitorable.

Liquidity position: Adequate

DEPL's liquidity position is adequate, supported by comfortable credit period extended by brands and availability of sufficient working capital limits to meet any short-term cash flow mismatches. Further, being a part of the Sattva Group, enhances DEPL's debt raising capabilities. In the past, the Group/promoters have extended support to DEPL in the form of unsecured loans, margin and collateral security required for availing credit limits. Absence of any term liabilities or committed capex requirements further supports the company's liquidity position.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings if the entity demonstrates healthy growth in scale of operations and working capital cycle while maintaining profitability resulting in improved debt protection metrics and liquidity position on a sustained basis.

Negative factors - The pressure on ratings will arise if there is significant decline in revenues and profitability or elongation of working capital cycle impacting liquidity position and debt coverage metrics on a sustained basis. Further weakening of linkages with the parent company could lead to pressure on the ratings. Additionally, any regulatory change which would adversely impact the business profile or large withdrawal of capital for investments in group companies, that significantly impacts the group's liquidity or leverage position will be negative trigger.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Approach – Implicit Parent or Group Support Policy on Withdrawal of Credit Ratings |
| Parent/Group support | ICRA expects the Sattva Group to be willing to extend financial support to DEPL, should there be a need, given its high strategic importance for the Group for meeting its diversification objectives. ICRA also expects the Group to be willing to extend financial support to DEPL out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the Group having extended timely financial support to DEPL in the past, whenever a need has arisen. |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the standalone financials of DEPL. |

About the company

DEPL was incorporated in December 2018, formerly named as Mindcomp Skyscape Pvt Ltd, and had commenced operations recently in FY2022. The company operates as an online retailer on Amazon Marketplace, engaging as a seller for large appliances such as AC, TV, refrigerator, etc. DEPL will source its products from vendors like Samsung, LG, Xiaomi, One Plus, Sony, Panasonic, Whirlpool, Godrej, TCL, VU, Bluestar, Bosch, Hisense, IFB, Hitachi, Onida, Philips, Sansui, Voltas to name a few. The same would be then sold on the Amazon Marketplace. All logistics is taken care by Amazon. DEPL plays a major role in working capital management.

Key financial indicators (Audited)

| DEPL Standalone | FY2022* |
|--|---------|
| Operating income | 977.7 |
| PAT | 6.7 |
| OPBDIT/OI | 2.3% |
| PAT/OI | 0.7% |
| Total outside liabilities/Tangible net worth (times) | 122.4 |
| Total debt/OPBDIT (times) | 19.8 |
| Interest coverage (times) | 1.4 |

Source: DEPL; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*The company has started operations in September 2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| 1 | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|----------------------------|--------------------------|--------------------------|---|---|---|---------------------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Sep 30, 2022 (Rs. crore) | Date & Rating in | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | 19-Dec-2022 | | | |
| | Working Capital Facilities | Long-term/ Short-term | 2000.0 | 1695.0 | [ICRA]BBB (Stable)/ [ICRA]A3+; assigned; earlier ratings of [ICRA]A(CE)(Stable)/[ICRA]A1(CE) withdrawn | [ICRA]A(CE) (Stable)/ [ICRA]A1(CE) | [ICRA]A(CE) (Stable)/ [ICRA]A1(CE) | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------------|----------------------|
| Working Capital Facilities | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN No. | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|----------|----------------------------|-----------------------------|-------------|---------------|--------------------------|--|
| NA | Working Capital Facilities | NA | NA | NA | 2000.0 | [ICRA]BBB (Stable)/ [ICRA]A3+; assigned; earlier ratings of [ICRA]A(CE)(Stable)/[ICRA]A1(CE) withdrawn |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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