

June 23, 2023

Dawntech Electronics Pvt Ltd: Provisional [ICRA]A(CE)(Stable)/ Provisional [ICRA]A1(CE) ratings assigned for Rs. 1,200-crore limit

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities 1	1400.00	1400.00	[ICRA]BBB (Stable)/ [ICRA]A3+; outstanding
Working Capital Facilities 2	600.00	600.00	[ICRA]A(CE)(Stable)/[ICRA]A1(CE); outstanding
Working Capital Facilities 3**	-	1200.00	Provisional [ICRA]A(CE) (Stable)/ Provisional [ICRA]A1(CE); assigned
Total	2000.00	3200.00	

Rating Without Explicit Credit Enhancement	[ICRA]BBB / [ICRA]A3+
Rating in the absence of pending actions/documents for the provisional ratings	[ICRA]BBB / [ICRA]A3+

*Instrument details are provided in Annexure-I

** The rating assigned is provisional as of now and is subject to the fulfilment and review of all pending actions/ documentation. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations¹.

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For [ICRA]BBB (Stable)/ [ICRA]A3+ Rating

The ratings are based on the expected healthy scale of operations of around Rs. 5,550 crore in FY2023, which is the first full year of operations for the company. Dawntech Electronics Private Limited (DEPL) enhanced its working capital limits in H2 FY2023, which will support its medium-term growth prospects. 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 through support extended by 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 an online retailer through Amazon in the Group company, (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 constrained by the intense competition faced by DEPL from other sellers on the online marketplace, and also from offline retailers, alongside the low

¹Provisional [ICRA]A(CE)(Stable)/ Provisional [ICRA]A1(CE) ratings are also intended to apply to the existing (and non-CE rated) bank facilities of Rs. 1,200 crore (out of total Rs. 1,400 crore). The aforesaid provisional rating is an interim rating intended to be applicable until the corporate guarantee deed is executed, covering all the necessary attributes of a strong form of third-party explicit support, as described in ICRA's methodology, Rating Approach - Explicit Third-Party Support. Once the corporate guaranteed deed is executed in line with ICRA's expectations, the provisional rating will be converted into final. Further, simultaneously, the [ICRA]BBB (Stable)/ [ICRA]A3+ ratings shall be withdrawn for the Rs. 1,200-crore limit.

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.

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.

For [ICRA]A(CE)(Stable)/[ICRA]A1(CE) Rating

The above rating is based on the strength of the corporate guarantee provided by Sattva Developers Private Limited (SDPL; rated [ICRA]A+ with Stable outlook), for the rated facility of DEPL. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SDPL.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by SDPL in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility, and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement, the payment mechanism is post-default in nature. Yet, ICRA has assigned a rating of [ICRA]A (CE) (Stable)/[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)]. If the rating of the guarantor or the Unsupported Rating of DEPL were to undergo a change in future, the same would have a bearing on the CE rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » *No change can be made in the company's ownership/control/management without prior written approval from the lender.*
- » *The borrower cannot encumber its assets without prior written approval from the lender.*
- » *The borrower cannot pay any commission, brokerage or fees to its promoters/directors/guarantors/security providers without prior written approval from the lender.*

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 through support extended by the Group and its promoters. In the past, the Group/promoters 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 11M FY2023, the company reported revenues of around Rs. 5,102 crore and is expected to record around Rs. 5,550 crore in FY2023. 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 the 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 an online retailer through Amazon in the Group company, (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

For [ICRA]A(CE)(Stable)/[ICRA]A1(CE) Rating: Adequate

The liquidity position of the guarantee provider (SDPL) is adequate. The annualised rental income for the Group is estimated to reach over Rs. 1,300 crore in FY2023 and is expected to steadily improve in the coming years. Coupled with adequate inflows from the residential and contract segments, the cash flow from operations is likely to be sufficient to meet all the operational and debt servicing requirements of the company. The presence of undrawn LRD debt and available LRD top-up potential in the existing commercial projects of the Sattva Group provide further liquidity support.

For [ICRA]BBB (Stable)/ [ICRA]A3+ Rating: 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 supports the company's liquidity position. The free cash and liquid investments as on February 28, 2023 stood at Rs. 15 crore.

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. Further, the ratings could be upgraded in case of any improvement in the credit profile of the guarantor, SDPL.

Negative factors – Pressure on ratings will arise if there is a significant decline in revenues and profitability or elongation of working capital cycle impacting liquidity position and debt coverage metrics on a sustained basis. The ratings could be downgraded in case of any deterioration in the credit profile of the guarantor or weakening of linkages with the parent company. Additionally, any regulatory change adversely impacting the business profile or large withdrawal of capital for investments in group companies that significantly affects the company's liquidity or leverage position will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Provisional Ratings
Parent/Group support	Group Company: Sattva Developers Private Limited and Sattva Real Estate Private Limited. The assigned CE rating is based on corporate guarantee extended by Sattva Developers Private Limited. For non-CE rating, 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 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.

Pending actions/documents required to be completed for conversion of the provisional rating into final

The rating assigned is provisional as of now (as denoted by the prefix Provisional before the rating symbol) for Rs. 1,200-crore working capital facilities and would be converted into final upon:

1. Execution of amendments in corporate guarantee deeds in line with ICRA's expectation

The provisional rating indicates the final rating that is likely to be assigned to the enhanced working capital facilities of DEPL after the completion of the pending items mentioned above, ceteris paribus.

Validity of the provisional rating

The validity period shall be 90 days, along with the possibility to extend it by up to a further 90 days on a case-to-case basis. In no circumstance shall the validity of the provisional rating be extended beyond 180 days from the date of assigning of the provisional ratings.

For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in. If neither the pending actions/documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

DEPL was incorporated in December 2018. It was formerly named as Mindcomp Skyscape Pvt Ltd, and 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 sources 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.

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

Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				23-Jun-2023	10-Apr-2023	19-Dec-2022	04-Feb-2022	26-Feb-2021
1 Working capital facilities 1	Long-term/Short-term	1400.0	1343.0	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+;	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)
2 Working capital facilities 2	Long-term/Short-term	600.0		[ICRA]A(CE)(Stable)/[ICRA]A1(CE)	[ICRA]A(CE) (Stable)/[ICRA]A1(CE)			
3 Working capital facilities 3	Long-term/Short-term	1200.0	NA	Provisional [ICRA]A(CE) (Stable)/Provisional [ICRA]A1(CE)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities 1	Simple
Working capital facilities 2	Simple
Working capital facilities 3	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital facilities 1	NA	NA	NA	1400.0	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Working capital facilities 2	NA	NA	NA	600.0	[ICRA]A(CE)(Stable)/[ICRA]A1(CE)
NA	Working capital facilities 3	NA	NA	NA	1200.0	Provisional [ICRA]A(CE)(Stable)/ Provisional [ICRA]A1(CE)

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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