

January 09, 2024

**Dawntech Electronics Pvt Ltd: [ICRA]A(CE) (Stable)/[ICRA]A1(CE) assigned, earlier rating of [ICRA]BBB (Stable)/[ICRA]A3+ withdrawn for Rs. 300-crore bank limits; reaffirmed [ICRA]A(CE) (Stable)/[ICRA]A1(CE) for Rs. 600-crore bank limits; upgraded to [ICRA]A-(Stable)/[ICRA]A2+ from [ICRA]BBB(Stable)/[ICRA]A3+ for Rs. 1,100-crore bank limits; provisional rating withdrawn**

**Summary of rating action**

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based – Working capital facilities-1	1,400.00	1,100.00	[ICRA]A-(Stable)/ [ICRA]A2+; Upgraded from [ICRA]BBB(Stable) / [ICRA]A3+
Long-term/Short-term – Fund-based – Working capital facilities-2	0.00	300.00	[ICRA]A(CE) (Stable)/[ICRA]A1(CE); assigned, earlier rating of [ICRA]BBB(Stable) / [ICRA]A3+; withdrawn
Long-term/Short-term – Fund-based – Working capital facilities-3	600.00	600.00	[ICRA]A(CE)(Stable)/[ICRA]A1(CE); reaffirmed
Long-term/Short-term – Fund-based – Working capital facilities-4	1,200.00	0.00	Provisional [ICRA]A(CE) (Stable)/ Provisional [ICRA]A1(CE); withdrawn
<b>Total</b>	<b>3,200.00</b>	<b>2,000.00</b>	

**Rating Without Explicit Credit Enhancement** [ICRA]A-/A2+ upgraded from [ICRA]BBB/A3+

\*Instrument details are provided in Annexure-I

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]A-(Stable)/A2+ rating**

The rating upgrade for Dawntech Electronics Private Limited (DEPL) factors in the healthy growth in scale, along with stabilised operations aided by improved brand diversification. DEPL reported healthy revenues of ~Rs. 6,000 crore in FY2023, which is the first full year of operations. Its revenues are expected to grow by 15-18% YoY in FY2024, backed by healthy demand for its appliances on e-commerce platforms due to increasing digital penetration. The company has established relationships with the existing brands such as Samsung, LG, Whirlpool, Oneplus and Sony and has entered tie-ups with new brands recently. In terms of product categories, DEPL caters to televisions (TVs), refrigerators, sound systems, electronics, speakers, air conditioners (ACs), among others. It enjoys high financial flexibility by way of support extended from the Sattva Group and its promoters in the form of unsecured loans, margin required for availing credit limits. The Sattva Group has extended timely financial support to DEPL in the past, whenever need has arisen and ICRA expects the same to continue in future as well.

The ratings, are however, constrained by DEPL's by modest profitability and high working capital-intensive nature of the trading business. The utilisation of working capital lines remains volatile, peaking during the festive season or sales events. The TOL/TNW is high to fund the elevated inventory levels due to large number of stock keeping units (SKU) and stock to be maintained at multiple locations. However, the inventory is largely moving. In case of any slow-moving goods, the brands and the entity has an arrangement for dilution of stock through discounts thereby mitigating inventory write-offs. The ratings are

also constrained by the competition faced by DEPL 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.

The Stable outlook on the rating reflects ICRA's opinion that DEPL will continue to benefit from its established relationships with multiple brands, healthy scale of operations and strong financial flexibility enjoyed, being a part of the Sattva Group.

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

The above rating for Rs. 900 crore of working capital facilities 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]A-/ [ICRA]A2+ [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. 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.*

ICRA has withdrawn the provisional rating assigned to the Rs. 1,200-crore working capital facilities at the request of the company, and in accordance with ICRA's policy on withdrawal.

### Key rating drivers and their description

#### Credit strengths

**Strong promoter profile, corporate guarantee for some of the rated facilities** – 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 37 years. The company enjoys high financial flexibility by way of support extended from the Sattva Group and its promoters in the form of unsecured loans, margin required for availing credit limits. The Sattva Group has extended timely financial support to DEPL in the past, whenever a need has arisen. ICRA expects the same to continue in future as well. The assigned CE rating is based on the strength of the corporate guarantee provided by SDPL.

**Healthy scale of operations with continued brand diversification** – DEPL reported healthy revenues of ~Rs. 6,000 crore in FY2023, which is the first full year of operations. Its revenues are expected to grow by 15-18% YoY in FY2024, backed by healthy demand for its appliances on e-commerce platforms due to increasing digital penetration. The company has established relationships with the existing brands such as Samsung, LG, Whirlpool, Oneplus and Sony and has entered tie-ups with new brands recently. In terms of product categories, DEPL caters to TVs, refrigerators, sound systems, electronics, speakers, ACs, among others.

## Credit challenges

**Modest profitability and high working capital requirements** – The company has modest profitability and high working capital-intensive nature of the trading business. The utilisation of working capital lines remains volatile, peaking during the festive season or sales events. The TOL/TNW remains high to fund the elevated inventory levels due to large number of SKUs and stock to be maintained at multiple locations. However, the inventory is largely moving. In case of any slow-moving goods, the brands and the entity has an arrangement for dilution of stock through discounts, thereby mitigating inventory write-offs.

**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 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.

## Liquidity position: Adequate

### For [ICRA]A-(Stable)/ [ICRA]A2+ rating

DEPL's liquidity position is adequate. As on March 31, 2023, the company has free cash balance of Rs. 312.1 crore. In the past, the Group/promoters have extended support to DEPL in the form of unsecured loans, margin required for availing credit limits.

### For [ICRA]A(CE)(Stable)/[ICRA]A1(CE) rating

The liquidity position of the guarantee provider (SDPL) is adequate with ~Rs. 220 crore of cash and cash equivalents as of March 2023. The rental receipts are likely to be around Rs. 1,300-1350 crore in FY2024 and is estimated to steadily improve going forward. This along with healthy collections from the residential segment are expected to be sufficient to meet all of the Group's operational and debt servicing requirements. Also, presence of undrawn lease rental discounting (LRD) debt and available LRD top-up potential in the existing commercial projects provides liquidity support.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the entity demonstrates a healthy improvement in profitability and working capital cycle resulting in improved debt protection metrics on a sustained basis. Specific credit metrics which will lead to a rating upgrade include interest cover of 3.5 times on a prolonged basis.

**Negative factors** – Negative pressure on the ratings will arise if there is a significant decline in profitability levels or elongation in working capital cycle affecting its liquidity position and debt coverage metrics on a sustained basis. Additionally, any regulatory change, which would adversely impact the operations of the business, or any substantial investments in Group companies that significantly affects the company's liquidity will be a negative trigger. Weakening of linkages with the parent company could also lead to pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Policy on Provisional Ratings</a> <a href="#">ICRA Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	Group Company: Sattva Developers Private Limited (SDPL). The assigned CE rating is based on corporate guarantee extended by SDPL. 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	Standalone

## About the company

DEPL was incorporated in December 2018. It was formerly named as Mindcomp Skyscape Pvt Ltd and had commenced operations from September 2021. The company operates as an online retailer on Amazon Marketplace, engaging as a seller for large appliances such as AC, TV, refrigerator, etc.

### Key financial indicators (audited)

DEPL	FY2022*	FY2023
Operating income	977.7	6004.1
PAT	6.7	37.1
OPBDIT/OI	2.3%	2.0%
PAT/OI	0.7%	0.6%
Total outside liabilities/Tangible net worth (times)	194.7	42.4
Total debt/OPBDIT (times)	19.8	12.7
Interest coverage (times)	1.4	1.5

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

\*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	Type	Current rating (FY2024)					Chronology of rating history for the past 3 years		
			Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 09, 2024	Jun 23, 2023	Apr 10, 2023			
1	Working capital 1	Long term	1,100.0	1,398.0	[ICRA]A-(Stable)/[ICRA]A2+	[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 2	Long term and short term	300.0		[ICRA]A(CE) (Stable)/[ICRA]A1(CE)	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)			
3	Working capital 3	Long term and short term	600.0		[ICRA]A(CE) (Stable)/[ICRA]A1(CE)	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)	[ICRA]A(CE) (Stable)/[ICRA]A1 (CE)			
4	Working capital 4	Long term and short term	1,200.0		-	Provisional [ICRA]A(CE) (Stable)/Provisional [ICRA]A1(CE); withdrawn	Provisional [ICRA]A(CE) (Stable)/Provisional [ICRA]A1 (CE)			

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based – Working capital facilities 1	Simple
Long-term/Short-term – Fund-based – Working capital facilities 2	Simple
Long-term/Short-term – Fund-based – Working capital facilities 3	Simple
Long-term/Short-term – Fund-based – Working capital facilities 4	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital 1	NA	NA	NA	1100.0	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Working capital 2	NA	NA	NA	300.0	[ICRA]A(CE) (Stable)/[ICRA]A1(CE)
NA	Working capital 3	NA	NA	NA	600.0	[ICRA]A(CE)(Stable)/[ICRA]A1(CE)
NA	Working capital 4	NA	NA	NA	1,200.0	Provisional [ICRA]A(CE) (Stable)/ Provisional [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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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.

For more information, visit [www.icra.in](http://www.icra.in)

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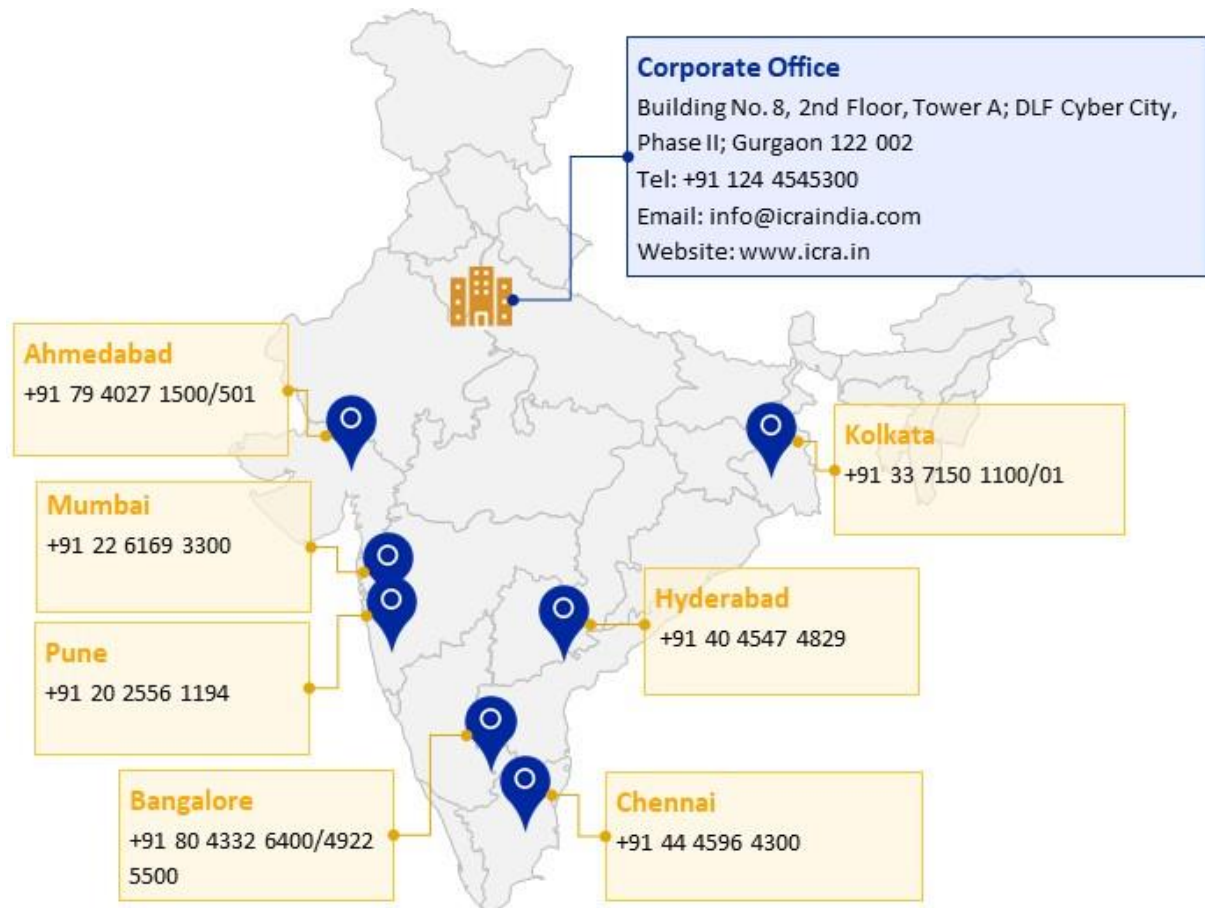
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