

February 26, 2021

Dawntech Electronics Pvt Ltd: [ICRA]A(CE) (Stable) / [ICRA]A1(CE) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based / Non-fund Based- Working Capital Facilities	150.0	[ICRA]A(CE) (Stable) / [ICRA]A1(CE); assigned
Total	150.0	

Rating Without Explicit Credit Enhancement	[ICRA]BBB / [ICRA]A3+
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*Instrument details are provided in Annexure-1

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

The above rating is based on the strength of the corporate guarantee provided by Sattva Developers Private Limited¹ (SDPL; rated [ICRA]A with Stable outlook), for the rated facility of Dawntech Electronics Pvt Ltd ('DEPL'/the company'). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SDPL.

Adequacy of credit enhancement

The rating of DEPL takes into account the corporate guarantee provided by SDPL to the borrowing programme of DEPL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by SDPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A(CE)/A1(CE) against the rating of [ICRA]BBB/A3+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well. The rating of this instrument 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 approval from lender.
- » The company cannot avail any other secured loan; and/or stand as surety or guarantor for any third-party liability or obligation without prior approval from lender.
- » Any interest payable for unsecured loan of promoter shall be at the end of financial year, after settling dues if any for the year.

¹ [Link for latest rationale](#)

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by SDPL to rated bank facilities of DEPL; strong promoter Group - The rating addresses the servicing of the loan to happen as per the terms of the underlying loan and the guarantee arrangements. The rating assumes that the guarantee will be duly invoked in case of a default in payment by the borrower.

DEPL is held by Salarpuria-Sattva Group, having extensive managerial experience across sectors like real estate, trading, hospitality and education. The Salarpuria-Sattva Group is one of the leading players in the Indian real-estate market with strong brand recognition and established track record of more than 34 years. Being a part of the Group, DEPL enjoys significant financial flexibility by way of support extended from the Group and its promoters.

Rising demand for online retail market - The e-commerce market in India is expected to witness healthy growth in the coming years, majorly driven by the shift of retailing business from offline to online channels, and greater penetration of internet across regions. Smartphones are among the leading contributors to e-commerce sales in India, and have witnessed double-digit growth in terms of volumes sold over the last two-three years.

Credit challenges

Nascent stage of operations; modest financial risk profile – The company is expected to commence operations from Q4FY2021 and operate as a seller on online marketplaces. The financial profile is expected to be characterised by modest profitability and leveraged capital structure as measured by TOL/TNW². Utilisation of bank credit limit are expected to remain volatile, reaching high levels during peak seasons corresponding to times of festive seasons, sales events or new launches. Nonetheless, the short inventory holding period and adequate credit period expected from the brands would support the overall debt servicing ability of the company.

Stiff competition; Business profile vulnerable to any regulatory changes – The e-commerce space is highly competitive in nature with the presence of a large number of sellers. The industry also faces stiff competition from the offline retail sector, which has a majority share of the overall retail market. Nevertheless, presence of strong managerial expertise mitigates the risk to some extent. In the past couple of years, the e-commerce industry has witnessed the introduction of several norms related to the operations of the entities involved. The impact of any future regulations on the business profile of DEPL will be a key rating monitorable.

Liquidity position: Adequate

The liquidity position of the guarantor is Adequate. Over the next year, stable rental income from the commercial real estate segment and inflows from the residential and contract segment of the Salarpuria-Sattva Group are expected to be sufficient to meet all the operational, and debt servicing requirements of the group. Presence of undrawn LRD debt and available LRD top-up potential in the existing and upcoming (as and when completed) rental projects provides further liquidity support.

DEPL's liquidity is expected to remain Adequate, supported by comfortable credit period extended by brands and availability of sufficient fund-based limits to meet any short-term cashflow mismatches. Further, being a part of the Group, enhances DEPL debt raising capabilities. Absence of any term liabilities or committed capex requirements further supports the liquidity position of the company.

Rating sensitivities

Positive factors: The ratings assigned would remain sensitive to any movement in the rating or outlook of the guarantor, SDPL.

² Total Outside Liabilities / Tangible Net Worth

Negative factors: The ratings assigned would remain sensitive to any movement in the rating or outlook of the guarantor, SDPL. Further, any deterioration in the standalone credit profile of DEPL or linkages with the guarantor could also lead to pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Group Company: Sattva Developers Private Limited The assigned rating is based on corporate guarantee extended by Sattva Developers Private Limited.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of DEPL.

About the company

DEPL, which was incorporated on December 2018, is a special purpose vehicle of the Salarpuria-Sattva Group. The company will operate as a seller on online marketplaces and mainly sell mobile phones under the electronic goods category. The operations are expected to commence from Q4FY2021 onwards.

About the guarantor, SDPL

Sattva Developers Private Limited (SDPL) is one of the flagship companies of the Salarpuria-Sattva Group. The group is currently being managed by Mr. Bijay Kumar Agarwal who is the Managing Director of the group. The group is one of the leading real estate developers in the Indian real estate market, and has completed more than 54 million square feet of development in the past 34 years of its existence. As of June 30, 2020, the group is executing residential projects with total saleable area of around 3.7 million sq. ft., mainly consisting of residential projects in Bangalore. The group currently has a sizeable commercial real estate portfolio, generating annualised rental inflows of around Rs. 900 crore as on June 30, 2020. The commercial properties of the group which are located in prime locations in Bangalore and Hyderabad have witnessed high occupancy levels and house many reputed tenants such as Hewlett Packard India, HSBC, WM Global etc.

Key financial indicators (audited)

DEPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	0.8	0.0
PAT (Rs. crore)	0.0	0.1
OPBDIT/OI (%)	-0.44%	n.m.
PAT/OI (%)	-0.43%	n.m.
Total Outside Liabilities/Tangible Net Worth (times)	1.1	9.9
Total Debt/OPBDIT (times)	n.m.	n.m.
Interest Coverage (times)	n.m.	n.m.

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; n.m. – not meaningful

Source: DEPL, ICRA research.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Feb 26, 2021			
1 Fund Based/Non-fund based- Working Capital Facilities	Long Term/ Short term	150.0	-	[ICRA]A(CE)(Stable)/ [ICRA]A1(CE)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund Based/Non-fund based- Working Capital Facilities	-	-	-	150.0	[ICRA]A(CE)(Stable)/ [ICRA]A1(CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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