

July 20, 2023

Darling Digital World Private Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	16.00	16.00	[ICRA]BB+(Stable); reaffirmed and withdrawn
Short Term – Fund Based Limits	29.71	29.71	[ICRA]A4+; reaffirmed and withdrawn
Total	45.71	45.71	

*Instrument details are provided in Annexure-I

Rationale

ICRA has reaffirmed and withdrawn the ratings assigned to the bank facilities of Darling Digital World Private Limited (DDWPL) at the request of the company and based on the No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal of credit ratings.

The ratings continue to factor in the long track record of DDWPL and considerable experience of the promoters in the consumer electronics retail segment along with a diversified product profile. The ratings also consider the company's healthy revenue growth of 31% to Rs. 974.0 crore, on a provisional basis, in FY2023 due to an increase in revenue in the existing stores and wholesale franchises along with the addition of new own stores. The ratings also factor in the company's presence in tier-2 and tier-3 cities, where competition from other large retail majors and online stores is relatively lower.

The ratings are, however, constrained by the company's moderate financial profile, marked by thin net profit margins inherent to the nature of the business and high gearing because of low net worth position and high working capital borrowings in FY2023. The ratings factor in the limited geographical diversification (although improved marginally in the recent past), with stores present mainly in the central part of Tamil Nadu, resulting in susceptibility of sales growth and profitability to economic conditions prevalent in rural and semi-urban parts of the state. The ratings also remain constrained by the high working capital requirements and limited headroom in the working capital limits at present.

The Stable outlook reflects ICRA's expectation that DDWPL will continue to benefit from the long experience in the consumer retail segment and growth in its scale of operations, driven by continuous expansion.

Key rating drivers and their description

Credit strengths

Vast experience of promoters in retail trade of consumer durables – The company is managed by experienced promoters, who have been in the consumer durables retail segment for nearly three decades.

Healthy growth in revenues in FY2023, marked by improvement in sales in existing and newly added stores – The company's operating income has grown by 31% to Rs. 974.0 crore in FY2023 due to opening of new stores and increasing revenue growth from the existing stores and wholesale franchisees. The company has added 6 new stores in FY2023, making the total count to around 70 stores and expects to further add 7-8 stores in the current fiscal, which is expected to further aid in revenue growth in FY2024.

Well diversified product profile – The product mix of DDWPL mainly comprises white goods such as refrigerators, washing machines, air conditioners and brown goods such as televisions. The company has increased its focus on IT products sales and the segment's contribution to the overall revenue increased to ~27% in FY2023 from 21% in FY2019. Apart from this, the other major component of sales comes from televisions, refrigerators, washing machines and air conditioners.

Presence in tier-2 and tier-3 cities – The company has established presence in tier-2 and tier-3 cities in Tamil Nadu, where competition from other large retail majors and online stores is relatively lower. The company's tie-up for financing arrangement for customers also enables it to serve distinct market segments.

Credit challenges

Thin net profit margin due to low value-additive nature of retail trading operations – Low value addition and working capital intensive nature of operations are the characteristics of consumer retail business. This coupled with low margins from the wholesale segment resulted in the squeezing of the operating profit margin over the years. The operating margins stood at 2.2% in the last three fiscals. Also, the PAT margin remained low at 0.5% in FY2023.

High geographical concentration – Limited geographical diversification (although improving to some extent), with stores present only in the central part of Tamil Nadu, resulted in susceptibility of sales growth and profitability to economic conditions prevalent in the rural and semi-urban parts of the state.

High gearing and weak coverage indicators – Due to high working capital (WC) requirements, the borrowing need is high, resulting in high gearing. Its gearing and TOL/TNW stood high at 4.3 times and 6.5 times, respectively in FY2023. The company's debt protection metrics remained weak with an interest coverage of 1.7 times in FY2023 against 1.8 times in FY2022.

Liquidity position: Stretched

The liquidity position remains stretched with the firm having high WC requirement. The average utilisation of WC limits stood at 94% between April 2022 and March 2023. Continuous enhancement of WC limits or support from promoters is required because of the proposed expansion.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology Retail Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

DDWPL is a major retailer in electronics and consumer home appliances in Vellore, Thiruvannamalai, Villupuram, Cuddalore, Salem, Tanjore, Chengalpet and Pondicherry regions. The company has around 70 showrooms selling consumer durable products of leading brands such as Samsung, LG, Sony, Panasonic, Whirlpool, IFB, Siemens, Godrej, Videocon etc as well as furniture and fitness products.

Key financial indicators (audited)

	FY2021	FY2022	FY2023*
Operating income	575.0	741.7	974.0
PAT	1.7	3.2	4.9
OPBDIT/OI	2.2%	2.2%	2.2%
PAT/OI	0.3%	0.4%	0.5%
Total outside liabilities/Tangible net worth (times)	6.0	6.9	6.5
Total debt/OPBDIT (times)	6.4	6.8	6.1
Interest coverage (times)	1.6	1.8	1.7

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

Note: All calculations are as per ICRA Research

*Provisional data

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 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 20,2023			
1	Long Term – Fund-based Cash Credit	Long term	16.00	-	[ICRA]BB+(Stable) Withdrawn	[ICRA]BB+(Stable)	[ICRA]B+(Stable); ISSUER NOT COOPERATING	-
2	Short Term – Fund Based Limits	Short Term	29.71	-	[ICRA]A4+ Withdrawn	[ICRA]A4+	[ICRA]A4; ISSUER NOT COOPERATING	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund-based Cash Credit	Simple
Short Term – Fund Based Limits	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, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long Term – Fund-based Cash Credit	-	-	-	16.00	[ICRA]BB+(Stable); Withdrawn
Short Term – Fund Based	-	-	-	29.71	[ICRA]A4+; Withdrawn

Source: Company

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

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About ICRA Limited:

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