

Press Release

Deekay Electricals - Hyderabad

February 20, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.58	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	15.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	17.58	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four Plus**) to the Rs. 17.58 Cr bank facilities of Deekay Electricals (DK), Hyderabad. The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors the long track record and experience of the promoters in electrical components wholesale trading, strong product portfolio, and moderate financial risk profile. These rating strengths are partially offset by limited scalability, vulnerability of profitability owing to volatility in commodity prices and susceptibility to cyclical nature of industry and competitive nature of industry.

About the Firm

Hyderabad based Deekay Electricals - Hyderabad was set up in 2008 as a partnership firm by Mr. Arun Kumar and Mr. Atish Kumar Srisimal. The company is engaged in Electricals wholesale and retail. The firm trades in electrical goods such as electrical wiring switch gears cables and other allied products. The company is engaged as a distributor of lighting and other electrical products for companies like Polycabs, Siemens India, EPCOS etc.

About the Group

Chennai based Deekay Electricals - Chennai was set up in 1996 as a partnership firm by Mr. Arun Kumar, Mr. and Mrs. Sunitha. The firm trades in electrical goods such as electrical wiring switch gears cables and other allied products. The company is engaged as a distributor of lighting and other electrical products for companies like Polycabs, Siemens India, EPCOS etc. Bangalore based Deekay Electricals - Bangalore was set up in 2016 as a partnership firm by Mr. Arun Kumar, Mr. Kamal Chand Ostwal, Mrs. Rakhee.H, Mr. Navneet Jhaver. The company is engaged in Electricals wholesale and retail.

Analytical Approach

Extent of Consolidation

- Full Consolidation

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• Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Deekay Electricals (Chennai, Hyderabad, and Bangalore) to arrive at the rating on the basis of common management, similar line of business and financial linkages. The three entities together are referred to as 'Deekay Group'.

Key Rating Drivers

Strengths

Experienced Management and Strong Product Portfolio

Deekay Electricals (DE), established in 1996, is a Chennai-based partnership firm led by partners, Mr. Arun Kumar and Mrs. Sunitha Arun with a collective experience of more than 2 decades in the industry. The group is a distributor of electrical products of Polycabs, Siemens India, Crompton greaves among others in Chennai, Hyderabad and Bangalore cities. The products the firm sells include electrical products like wires, cables, switch gears, building products, panels, capacitors, lightings, fans, lugs, terminals.

Deekay Group (DK Group) caters to dealers, OEMS (original equipment manufacturers), contractors, builders and retail customers. Group's operating revenue increased to 290.96 Cr in FY2022 from 186.33 Cr in FY2021 due to increase in prices, expansion of dealership network and favourable market conditions. Operating profits of the group increased to 16.48 Cr in FY2022 from 10.13 Cr in FY2021 with stable operating margins of 5.67 percent in FY2022 and 5.44 percent in FY2021.

Acuité believes that the group will continue to benefit from its experienced management and established relationships with both customers as well as suppliers in the medium term.

Moderate Financial Risk Profile

DK group's financial risk profile is moderate marked by healthy capital structure and coverage indicators. Group's net worth stood at 45.37 Cr as on March 2022 against 39.71 Cr as on March 2021, networth are expected to remain modest on account of limited accretion to reserve. Debt protection metrics of Interest coverage ratio stood at 3.58 times as on March 31st 2022 against 2.38 times as on March 31st 2021. The net cash accrual to debt stood at 0.2 times as on March 31st 2022 against 0.12 times as on March 31st 2021. The total outside liabilities to tangible net worth stood at 1.81 times as on March 31st 2022 against 1.85 times as on March 31st 2021.

Acuité believes that the financial risk profile of the firm is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

Weaknesses

Moderately intensive working capital operation

The working capital operations of the group are moderately intensive with Gross current asset (GCA) days of 158 days in FY 2022 as against 215 days in FY 2021. The improvement in GCA days is majorly due to better inventory management with inventory days reduced to 47 days in FY 2022 as against 72 days in FY 2021. Further, the debtor days has reduced to 107 days in FY 2022 as against 136 days in FY 2021. However, the same is still higher as the credit period allowed to customer is around 90 days. Further, out of the total debtor outstanding as on March 2022 of Rs 85 Cr, Rs 10.70 Cr are outstanding for period of more than a year. Acuite' believes that working capital operations of the group may continue to remain moderately intensive considering the nature of business.

Vulnerability of profitability owing to volatility in commodity prices

The profitability margins of the group are susceptible to volatility in commodity prices. Significant changes in commodity prices will impact the margins of the group. Acuité believes that profitability of the group will remain susceptible to volatility in commodity prices in the near to medium term.

Susceptibility to cyclical nature of industry and competitive nature of industry

The firm engaged in trading business of electrical products to dealers, OEMS (original equipment manufacturers), contractors, builders and retail customers. Demand for electrical components is majorly dependent upon the economic activities taking place in and around the country. The end user industry being infrastructure, manufacturing, service and real state, any significant slowdown in these industries will impact the demand of electrical components and will impact the revenues of the firm. Further, the firm competes with various players in the organized and unorganized segments in the electrical component trading industry, thus limiting the pricing power.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins.
- Deterioration in working capital cycle, deterioration of financial risk profile and liquidity

Material Covenants

None

Liquidity: Adequate

The group has the adequate liquidity position as reflected by the cash accruals of Rs 12.82 Cr as on March 31st 2022, going forward cash accruals are expected to remain in the range of 11.50 Cr to 13 Cr. Unencumbered cash and bank balance stood at Rs. 0.51 Cr with current ratio of 1.73 times as on March 31st 2022. The group's working capital management is moderately intensive with GCA days of 158 days for FY2022 as against 215 days' in FY2021. Working capital limits are utilized in the range of 75 percent for 12 months ending October 2022.

Outlook: Stable

Acuité believes that DK Group will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience, Strong product profile, and strong dealership and client network. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt-funded capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	290.96	186.33
PAT	Rs. Cr.	12.54	5.90
PAT Margin	(%)	4.31	3.17

Total Debt/Tangible Net Worth	Times	1.45	1.30
PBDIT/Interest	Times	3.58	2.38

Status of non-cooperation with previous CRA (if applicable)

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Assigned
RBL Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BB+ Stable Assigned
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.58	ACUITE BB+ Stable Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

1. Deekay Electricals
2. Deekay Electricals, Bangalore
3. Deekay Electricals, Hyderabad

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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