

Press Release

Danya Electric Company

May 11, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.68	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	28.50	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	32.18	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITÉ BB-**' (read as **ACUITE double B Minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A Four Plus**) to the Rs 32.18 Cr. bank facilities of Danya Electric Company (DEC). The outlook is '**Stable**'.

Rationale for Rating

The rating notably takes into account the experience of the partners' in the business along with long operational track record of the firm. The firm has steady customer base with TANGEDCO (Tamil Nadu Generation and Distribution Corporation Ltd) being its primary customer along with longstanding relationship with reputed clientele base. However, the rating remains constrained by the below average financial risk profile along with stretched liquidity and working capital intensive nature of operations.

About the Company

Chennai based, Danya Electric Company (DEC) was incorporated in 1983, as a partnership concern promoted by Mr. Vee Raj Mohan and Mr. K.V. Pradeep. The firm is engaged in manufacturing and supply of oil filled Power and Distribution Transformers of ratings up to 5 MVA/33KV class. The firm is located in Nayapakkam High Road, Thiruvallur District, Tamil Nadu. The firm supplies electrical HT Transformers to TANGEDCO (Tamil Nadu Generation and Distribution Corporation Ltd). DEC has its own fabrication facility in Chennai, for production of tanks needed in transformers. This provides an edge for timely supply of the transformers to their customers.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of DEC to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in the industry with considerable experience of partners

DEC was established in the year 1983 and is engaged in the manufacturing and supply of oil filled Power and Distribution Transformers of ratings up to 5 MVA/33KV class. DEC is approved

by the Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) as its vendor for the supply of electrical HT transformers and are regular suppliers to TANGEDCO for various types of distribution transformers of capacity ranging from 100 KVA to 500 KVA. The partners have over two decades of experience in the business, which helps the firm in building its sales and procurement network. DEC also has its own fabrication facility in Chennai, for production of tanks needed in transformers. This provides an edge for timely supply of the transformers to their customers.

Acuite believes that firm will continue to benefit from extensive experience of its partners and long operational track record.

Increasing revenue profile along with steady profitability margin

DEC has recorded an operating income of Rs.38.24 crore in FY2022 as against Rs.19.11 crore in FY2021 led by increase in execution of orders. Further, the increase is supported by the successful completion of a special order received by the company before FY22. The revenue for 11MFY23 stood at Rs.31.48 Cr (prov). The operating margin of the firm decreased to 6.37 percent in FY2022 as against 6.79 percent in FY2021 due to the upsurge in raw material costs. Also, PAT margin stood at 1.60 percent in FY2022 as against 1.49 percent in FY2021

Weaknesses

Below Average Financial Risk Profile

The financial risk profile of the company stood below average, marked by low net worth, high gearing and below average debt protection metrics. The tangible net worth stood at Rs.3.98 crore as on 31 March, 2022 as against Rs.3.15 crore as on 31 March, 2021. The increase in tangible net worth is due to accretion of profits. The total debt of the company stood at Rs.7.67 crore which includes Rs.1.12 crore of long-term debt and Rs.6.15 crore of short term debt. The firm follows an aggressive financial risk policy reflected through its peak gearing of 1.93 times as on March 31, 2022 as compared to 3.76 times as on 31 March, 2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.96 times as on 31 March, 2022 as against 6.86 times on 31 March, 2021. Further, the coverage indicators stood below average with the Debt Service Coverage Ratio (DSCR) and Interest Coverage Ratio stood same at 1.42 times in FY2022 as against 1.46 times in FY2021 and 1.67 times in FY2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times for FY2022.

Acuite believes that the financial risk profile may improve going forward with gradually improving cash accruals and in absence of capex plans in the medium term.

Intensive Working Capital Management

The working capital management of the company are intensive in nature marked by high GCA days which stood at 171 days in FY2022 as against 438 days in FY2021. The debtor days stood at 129 days in FY2022 as against 257 days in FY2021. The average collection period is around 90-180 days. The inventory days improved in FY22 which stood at 27 days against 82 days in FY21 due to better management of its raw materials, and spare parts. DEC also has its own fabrication facility in Chennai, for production of tanks needed in transformers. This has aided the company in timely supply of its inventory. The creditor days stood at 83 days in FY2022 as against 220 days in FY2021. The average period allowed by suppliers is around 60 days.

Acuite expects the working capital management to remain intensive over the medium term considering the nature of business and terms allowed to customers.

Highly fragmented and competitive industry

The industry is marked by presence of large number of organized and unorganized players. The industry is intensely competitive and fragmented because of low entry-barriers and moderate capital requirements. The high competitive intensity limits the pricing flexibility and pressurizes the margins of all the participants.

However, the established brand presence, reputed customer base and experienced management mitigates the risk to some extent.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margins.
- Elongation in working capital cycle leading to higher reliance on working capital limits.

Material covenants

None

Liquidity Position

Stretched

The company's liquidity is stretched marked by net cash accruals which stood at Rs 0.74 Cr as on March 31, 2022 as against no current maturity. The unencumbered cash and bank balances of the company stood at Rs. 0.09 Cr as on March 31, 2022 as compared to Rs. 3.20 Cr as on March 31, 2021. The current ratio stood at 1.23 times as on March 31, 2022. The average bank utilisation stood at 58 percent for last six months ended March, 2023. DEC's operations are working capital intensive marked by Gross Current Assets (GCA) of 171 days for FY2022 as compared to 438 days for FY2021.

Acuité believes that going forward the liquidity profile of the company will improve backed by gradually improving cash accruals

Outlook: Stable

Acuité believes that DEC will continue to maintain a 'Stable' outlook over the medium term owing to its experienced and technically qualified management. The outlook may be revised to 'Positive' if the company reports significant improvement in revenue and scale of operations while maintaining the operating profitability, leading to higher cash-accruals. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue and profitability leading to lower than expected cash accruals or deterioration in the financial risk profile, or higher than expected working capital borrowings.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	38.24	19.11
PAT	Rs. Cr.	0.61	0.28
PAT Margin	(%)	1.60	1.49
Total Debt/Tangible Net Worth	Times	1.93	3.76
PBDIT/Interest	Times	1.42	1.46

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	ACUITE A4+ Assigned
Tamil Nadu Industrial Investment Corporation Limited (TIIC)	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.70	ACUITE BB- Stable Assigned
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.98	ACUITE BB- Stable Assigned

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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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