



Press Release
DANYA ELECTRIC COMPANY
August 08, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.18	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	15.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	32.18	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB-**' (read as **ACUITE double B Minus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A Four Plus**) on 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 partner's in the business along with long operational track record of the firm. The firm has concentrated customer base with TANGEDCO (Tamil Nadu Generation and Distribution Corporation Limited) being its primary customer. However, the rating remains constrained by the moderate financial risk profile 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 Limited). 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 Limited (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.

Steady revenue profile along with increasing profitability margin

DEC has recorded an operating income of Rs.31.35 crore in FY2024(Prov) as against Rs.31.62 crore in FY2023. The revenue for Q1FY2025 is Rs. 8.91 Cr. The order book of the Company stands at Rs. 7.82 Cr. as on March 31, 2024 to be executed till Sept, 2024 which provides it near term revenue visibility. The current The operating margin of the firm increased to 18.98 percent in FY2024(Prov) as against 15.78 percent in FY2023 due to better margins in orders executed. Also, PAT margin stood at 9.41 percent in FY2024(Prov) as against 8.09 percent in FY2023. Acuite believes that the scale of operations of the company is expected to remain at similar levels over the medium term.

Moderate Financial Risk Profile

The financial risk profile of the company stood moderate, marked by small net worth, low gearing and comfortable debt protection metrics. The tangible net worth stood at Rs.17.15 crore as on 31 March, 2024(Prov) as against Rs.5.86 crore as on 31 March, 2023. The increase in tangible net worth is due to accretion of profits and infusion of capital. The total debt of the company stood at Rs.3.32 crore which includes Rs.0.85 crore of long-term debt and Rs.1.51 crore of short term debt. The firm has improved on gearing it now stands at 0.19 times as on March 31, 2024(Prov) as compared to 2.03 times as on 31 March, 2023. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.55 times as on 31 March, 2024(Prov) as against 3.13 times on 31 March, 2023. Further, the coverage indicators stood moderate with the Debt Service Coverage Ratio (DSCR) of 2.20 times in FY2024(Prov) as against 1.49 times in FY2023 and 0.75 times in FY2022. Interest Coverage Ratio stood at 4.46 times in FY2024(Prov) as against 4.84 times in FY2023 and 1.42 times in FY2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.91 times for FY2024(Prov).

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.

Weaknesses

Intensive Working Capital Operations

The working capital management of the company are intensive in nature marked by high GCA days which stood at 240 days in FY2024(Prov) as well as in FY2023. The debtor days stood at 161 days in FY2024(Prov) as against 99 days in FY2023. The inventory days stood at 95 days in FY2024(Prov) which stood at 67 days in FY2023. DEC also has its own fabrication facility in Chennai, for production of tanks needed in transformers. This has aided the company in the timely supply of its inventory. The creditor days stood at 53 days in FY2024(Prov) as against 69 days in FY2023.

Acuite expects the working capital management to remain intensive over the medium term considering the nature of business and credit terms with their 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 players. Acuite believes that the firm would remain susceptible to challenges from such fragmented and competitive industry over the medium term.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margins.
- Improvement in working capital cycle and debtors management.

Liquidity Position **Adequate**

The company's liquidity is adequate marked by net cash accruals which stood at Rs 3.03 Cr. as on March 31, 2024(Prov) as against Rs. 0.46 Cr. of current maturity. The unencumbered cash and bank balances of the company stood at Rs. 0.02 Cr. as on March 31, 2024(Prov) as compared to Rs.5.49 Cr. as on March 31, 2023. The current ratio stood at 2.69 times as on March 31, 2024(Prov). The average bank utilisation stood at ~ 47 percent for last 6 months ended June, 2024. DEC's operations are working capital intensive marked by Gross Current Assets (GCA) of 240 days for FY2024(Prov) & FY2023 both. Acuité believes that going forward the liquidity profile of the firm 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 firm 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 elongation in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	31.35	31.62
PAT	Rs. Cr.	2.95	2.56
PAT Margin	(%)	9.41	8.09
Total Debt/Tangible Net Worth	Times	0.19	2.03
PBDIT/Interest	Times	4.46	4.84

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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. Acuité'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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 May 2023	Bills Discounting	Short Term	13.50	ACUITE A4+ (Assigned)
	Bills Discounting	Short Term	15.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	1.70	ACUITE BB- Stable (Assigned)
	Covid Emergency Line.	Long Term	1.98	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Tamil Nadu Industrial Investment Corporation Limited (TIIC)	Not avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A4+ Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.70	ACUITE BB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2027	Simple	1.17	ACUITE BB- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.31	ACUITE BB- Stable Reaffirmed

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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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