

Press Release

Patel Retail Private Limited (PRPL)

12 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs.100.00 crore bank facilities of Patel Retail Private Limited (PRPL). The outlook is '**Stable**'.

Patel Retail Private Limited (PRPL) was incorporated in 2007 under the directorship of Mr. Bechar R. Patel, Dhanji R. Patel and Mr. Hiren B. Patel. The company has around 17 supermarket stores in between Dombivali-Kalyan-Shahad - Titwala, Ulhasnagar-Ambernath & Badlapur as Patel R.Mart and sells all kinds of groceries, home & personal care, spices, oils, dry fruits, utensils among others.

Further the company is into exports of spices and FMCG items to various regions in Middle East, Africa, Canada, USA, and Australia.

The company also has around 3 garment stores (300 to 400 sq.ft.) under the name Patels R Choice. The revenue contribution from retail chains is ~60 per cent and exports are ~40 per cent. Garment stores contribution is minimal.

The company purchases agro products from the local mandis of various states like Gujarat, Kerala, Tamil Nadu and Madhya Pradesh among others. The agro products are processed in the warehouse centre situated in Ambernath. Further the company has also set up a processing plant in Gujarat – Dhudai where it carries out processing of pulses, peanuts, cumin seeds, coriander seeds among others. The company has its own dal and wheat flour mill. It sells its groceries under the brand name 'Patel Fresh'. The facilities are ISO 9001:2008 and HACCP certified.

Key rating drivers

Strengths

Experienced management: Mr. Bechar Patel and Mr. Dhanji Patel, promoters of the company have experience of over two decades in retail industry. Prior to starting up the company the promoters were working in grocery stores. The extensive experience has helped the company establish relationship suppliers. The company currently has around 17 supermarts between Dombivali-Kalyan-Shahad - Titwala, Ulhasnagar-Ambernath & Badlapur and also exports to various countries.

Moderate working capital intensity: The Company has moderate gross current asset of 91 days in FY2017 which has increased from 77 days in FY2016. The increase is mainly on account of debtor of 43 days and inventory holding of 41 days in FY2017. Inventory increased in FY2017 when compared to 29 days in FY2016 as the company has set up a new processing unit where they have to maintain stock (seasonal availability), thus going ahead the inventory holding is expected to remain at similar levels.

Strategic Location of shops: PRPL derives benefits from strategically located shops as the shops have close proximity to residential areas and railway stations. This is expected to ensure maximum footfall.

Weaknesses

Leveraged capital structure: The company has networth base of Rs.37.21 crore (includes quasi equity of Rs.25.65 crore) as on March 31, 2017 as against Rs.31.65 crore in the previous year. The gearing stood high at 2.33 times as on March 31, 2017. Total debt of Rs.86.66 crore includes term loans of Rs.14.35 crore and short term borrowings of Rs.72.31 crore. Further the company has continuous expansion plans to set up new retail stores which is likely to keep the gearing at high levels in medium term. The Company has moderate coverage indicators with interest coverage of 2.03 times in FY2017 when compared to 1.96 times in the previous year.

The company has plans to set up 3 retail stores between Dombivali-Kalyan-Shahad - Titwala, Ulhasnagar-Ambernath & Badlapur of which one is expected to be operational from February, 2018 and the rest two by March, 2018. The company will rent the premises and will avail a loan of ~Rs.3.90 crore for furniture & fixtures.

SMERA believes that the company will have continuous expansion plans to set up new retail stores which is likely to keep the gearing at high levels in medium term.

Highly fragmented and competitive industry: The company may face competition from the existing retailers and new entrants, both organized and un-organized. PRPL's ability to maintain its competitive positioning in its area of operation will depend on its ability to offer quality products and service at competitive pricing and any slowdown in footfall due to competitive factors will affect the accruals and the debt protection indicators of the company.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Patel Retail Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that PRPL will maintain a stable business risk profile on account of experienced management and diversified product profile. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and managing its working capital efficiently. The outlook may be revised to 'Negative' in case of steep decline in the revenues or profitability or elongation in its working capital cycle translating to deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	348.30	307.57	235.70
EBITDA	Rs. Cr.	16.07	12.10	9.97
PAT	Rs. Cr.	2.20	1.50	1.32
EBITDA Margin	(%)	4.61	3.93	4.23
PAT Margin	(%)	0.63	0.49	0.56
ROCE	(%)	10.07	9.39	17.04
Total Debt/Tangible Net Worth	Times	2.33	2.19	2.28
PBDIT/Interest	Times	2.03	1.96	1.95
Total Debt/PBDIT	Times	5.37	5.72	5.82
Gross Current Assets (Days)	Days	91	77	82

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Post Shipment Credit **	NA	NA	NA	33.20	SMERA A3
Foreign Currency Term Loan	NA	NA	NA	0.87	SMERA BBB-/Stable
Term Loan - I	NA	NA	NA	4.47	SMERA BBB-/Stable
Term Loan - II	NA	NA	NA	2.15	SMERA BBB-/Stable
Warehousing Facility	NA	NA	NA	5.00	SMERA BBB-/Stable
Cash Credit#	NA	NA	NA	8.50	SMERA BBB-/Stable
PCFC (Pre Shipment) ^	NA	NA	NA	12.00	SMERA A3
WCDL	NA	NA	NA	8.00	SMERA BBB-/Stable
Term Loan - III	NA	NA	NA	2.47	SMERA BBB-/Stable
Term Loan - IV	NA	NA	NA	0.94	SMERA BBB-/Stable
Term Loan - V	NA	NA	NA	1.00	SMERA BBB-/Stable
Term Loan VI	NA	NA	NA	2.00	SMERA BBB-/Stable
Overdraft@	NA	NA	NA	10.00	SMERA BBB-/Stable
Bank Guarantee	NA	NA	NA	0.50	SMERA A3
Proposed Term Loan	NA	NA	NA	3.90	SMERA BBB-/Stable
Proposed PCFC (Pre Shipment)	NA	NA	NA	5.00	SMERA A3

** Sublimit - Packing Credit – Rs. 31.70 crore, Cash Credit – Rs. 18.00 crore, Letter of Credit (Sight/Usance) – Rs. 3.00 crore, Letter of Undertaking for Buyer's Credit – Rs. 3.00 crore, Bank guarantee – Rs.1.50 crore.

Sublimit - PCFC – Rs.4.00, Post Shipment Limit – Rs.4.00, Letter of Credit – Rs.2.00, Buyers Credit – Rs. 2.00.

^Sublimit - Pre Shipment – Rs.12.00.

@Sublimit - WCDL – Rs.7.50, Pre Shipment – Rs.10.00, Post Shipment – Rs.10.00

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ABOUT SMERA

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