

## Press Release

### Patel Retail Private Limited

March 01, 2019

### Rating Reaffirmed and Withdrawn



<b>Total Bank Facilities Rated*</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A3

\* Refer Annexure for details

### Rating Rationale

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

PRPL, based at Thane in Mumbai, was incorporated in 2007. The company is promoted under the directorship of Mr. Bechar R. Patel, Mr. Dhanji R. Patel and Mr. Hiren B. Patel. The company has around 25 plus supermarket stores in between Dombivali, Kalyan, Shahad, Titwala, Ulhasnagar - Ambarnath and Badlapur as 'Patel R. Mart' and sells all kinds of groceries, home & personal care, spices, oils, dry fruits and 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 4 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 such as Gujarat, Kerala, Tamil Nadu and Madhya Pradesh, among others. The agro products are processed in the warehouse centre situated at Ambarnath in Mumbai. Further, the company has also set up a processing plant in Gujarat at Dhudai; where it carries out processing of pulses, peanuts, cumin seeds and 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.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Patel Retail Private Limited (PRPL) to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Experienced management and established track record of operations**

The company possess operational track record of over a decade in retail industry and has established over 25 plus supermarket stores under its own brand name of 'Patel R. Mart' and 4 garment stores under the name of 'Patels R Choice'. The company also sells its groceries under the brand name 'Patel Fresh'. 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 industry experience has helped the company to establish longstanding relationships with suppliers and customers in export market.

- Strategic location of shops and geographically well diversified**

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. Further, the stores have presence in geographically diversified locations and also the company export its products in various countries such as Middle East, Africa, Canada, USA, and Australia.

- **Improving revenue and moderate working capital cycle**

The company's operating income has improved to Rs.420.48 crore in FY2018 from Rs.348.30 crore in FY2017 and Rs.307.57 crore in FY2016. The company is growing at compounded annual growth rate of 15.57 percent since 2015 and has already booked revenue of Rs.401.89 crore till December 2018. The working capital cycle of the company is moderate marked by gross current assets (GCA) of 101 days in FY2018 and 91 days in FY2017. The increase is mainly on account of debtors of 47 days and inventory holding of 46 days in FY2018 from previous of 43 days and 41 days respectively in FY2017. The working capital facilities are utilised at 75.00 percent approximately for last six months ending December 2018.

## Weaknesses

- **Moderate financial risk profile and leveraged capital structure**

The company has net worth base of Rs.46.92 crore (includes quasi equity if Rs.31.25 crore) as on 31 March, 2018 as compared to Rs.37.21 crore (includes quasi equity if Rs.25.65 crore) as on 31 March, 2017. The gearing stood high at 1.70 times as on 31 March, 2018 and 2.33 times as on 31 March, 2017. The company has moderate coverage indicators with interest coverage ratio of 2.15 times in FY2018 and 2.03 times in FY2017. The DSCR ratio remained low at 1.30 times in FY2018 as compared to 1.43 times in FY2017. Further, the company has continuous expansion plans to set up new retail stores which is likely to keep the gearing at high levels in the medium term. Acuite believes that the company's continuous expansion plans to set up new retail stores are likely to keep the gearing at high levels in medium term.

- **Project risk and agro climatic risk**

The company has also planned to set up Multi Product Food Processing Infrastructure for Kutch Agro Processing and Cluster Food Processing Unit by March, 2020. The company will rent the premises and will avail a loan of ~Rs.28.44 crore from the bank for the setup of new unit and promoters' contribution will be of Rs.13.20 crore. The total project cost will be of around Rs.41.64 crore and the company will be eligible for interest rate and capital subsidy under Kisan Sampada Yojana scheme. The operations are likely to commence from July 2020 and any delay in project implementation may incur additional cost or cost overrun of the project.

Further, the company is transforming from marketing and selling of products to processing of products by its own. The products include agro commodities and its availability is totally dependent on monsoon and climatic conditions. This exposes it to raw material availability risk at the implementation time and may have impact on operations. However, Acuite believes that promoters' experience and established presence of the company in the industry will reduce such risk to certain extent.

- **Highly fragmented and competitive industry**

The Indian retail industry is marked by presence of large number of organised players, E-retailers and funding from foreign players has boost entry of new players. The company will face high competition from the existing retailers and new entrants, both organised and unorganised. 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.

## Liquidity position

Liquidity profile of PRPL is moderate marked by moderate cash accruals against its repayment obligations. The net cash accruals generated in FY2018 stood at Rs.8.30 crore and Rs.7.02 crore in FY2017. The company has net worth base of Rs.46.92 crore (includes quasi equity if Rs.31.25 crore) as on 31 March, 2018 as compared to Rs.37.21 crore (includes quasi equity if Rs.25.65 crore) as on 31 March, 2017. The current ratio stood at 1.21 times in FY2018 as compared to 1.16 times in FY2017. The working capital facilities are utilised at ~75.00 percent for last six months ending December 2018. Acuite believes that with moderate accruals to obligations and incremental working capital requirements, the liquidity is expected to remain at moderate level over the medium term.

### Outlook: Stable

Acuite 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 due to future funded capex plans.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	420.48	348.30	307.57
EBITDA	Rs. Cr.	19.44	16.07	12.10
PAT	Rs. Cr.	4.08	2.20	1.50
EBITDA Margin	(%)	4.62	4.61	3.93
PAT Margin	(%)	0.97	0.63	0.49
ROCE	(%)	12.22	10.07	9.39
Total Debt/Tangible Net Worth	Times	1.70	2.33	2.19
PBDIT/Interest	Times	2.15	2.03	1.96
Total Debt/PBDIT	Times	4.08	5.37	5.72
Gross Current Assets (Days)	Days	101	91	77

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

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-Mar-2018	Post Shipment Credit**	Short Term	33.20	ACUITE A3 (Assigned)
	Foreign Currency Term Loan	Long Term	0.87	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.47	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	2.15	ACUITE BBB- / Stable (Assigned)
	Warehousing facility	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit#	Long Term	8.50	ACUITE BBB- / Stable (Assigned)
	PCFC(Pre Shipment)^	Short Term	12.00	ACUITE A3 (Assigned)
	Working capital demand loan (WCDL)	Long Term	8.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	2.47	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.94	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB- / Stable (Assigned)
	Overdraft@	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)
	Proposed Term Loan	Long Term	3.90	ACUITE BBB- / Stable (Assigned)
	Proposed PCFC (Pre Shipment)	Short Term	5.00	ACUITE A3 (Assigned)

\*\* 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

**\*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**	Not Applicable	Not Applicable	Not Applicable	41.70	ACUITE A3 (Reaffirmed)
Foreign Currency Term Loan	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.46	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.57	ACUITE BBB- / Stable (Reaffirmed)
Warehousing facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACIITE BBB- (Withdrawn)
Cash Credit#	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- / Stable (Reaffirmed)
PCFC(Pre Shipment)^	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.58	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.85	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BBB- / Stable (Reaffirmed)
Overdraft@	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.61	ACUITE BBB- / Stable (Reaffirmed)
Proposed PCFC (Pre Shipment)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Withdrawn)

\*\*Sublimits - Packing Credit – Rs. 41.70 crore, Cash Credit and WCDL – Rs. 28.00 crore, Letter of Credit (Sight/Usance) – Rs. 3.00 crore, Bank guarantee – Rs.1.50 crore.

# Sublimits - PCFC – Rs.4.00, Post Shipment Limit – Rs.4.00, Letter of Credit – Rs.2.00.

^ Sublimits - Pre Shipment – Rs.15.00.

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

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### About Acuité Ratings & Research:

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