

Press Release

Patel Retail Private Limited

June 17, 2020

Rating Upgraded and Withdrawn



Total Bank Facilities Rated*	Rs. 100.00 crore
Long Term Rating	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-; Withdrawn)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the above mentioned bank facilities of Rs.100.00 Cr. for Patel Retail Private Limited (PRPL). The outlook is '**Stable**'.

Further, Acuite has also withdrawn long term facility of Rs.0.08 crores on account of term loan being fully repaid by the company and confirmation that there are no outstanding.

Reason for Upgrade

The rating upgrade is in the view of substantial growth in revenues while sustaining the profitability margins, comfortable working capital cycle and moderate debt protection metrics. Further, Acuite believes that the company will be able to sustain its growth in revenues and profitability margins in near to medium term driven by improvement in scale of operations well supported by addition of new stores and backward integration in operations by ongoing planned capital expenditure. PRPL has booked revenue of Rs. 639.54 crores in FY2020 (Provisional) as against Rs. 571.05 crores in FY2019 and Rs. 420.48 crores in FY2018. The operating margins stood in same range at 3.89 percent in FY2020 (Provisional) as against 4.04 percent in FY2019. Further, profit margins have marginally improved to 1.03 percent in FY2020 (Provisional) as against 0.97 percent in FY2019 and FY2018. The company has comfortable working capital cycle marked by GCA days of 68 days in FY2020 (Provisional) as against 86 days in FY2019 and 101 days in FY2018. The rating also factors in adequate liquidity and moderate financial risk profile of PRPL. However, the rating is constrained by moderate revenues albeit increasing trend and working capital intensive operations.

Patel Retail Private Limited (PRPL) is based of Thane; Maharashtra was incorporated in 2007. The company is promoted by Mr. Bechar R. Patel, Mr. Dhanji R. Patel and Mr. Hiren B. Patel. The company has around 25 supermarket stores in between Dombivali – Kalyan - Shahad - Titwala, Ulhasnagar - Ambarnath and Badlapur. The supermarket stores operates under brand name of 'Patel R. Mart' and sells groceries, home & personal care, spices, oils, dry fruits, utensils among other essential as well as non-essential commodities. The company also has around 2 garment stores (300 to 500 sq.ft.) under the name 'Patels R Choice'. Further, the company also exports spices and other FMCG products to various regions such as Middle East, Africa, Canada, USA, and Australia. The export contributes to ~60% of total sales in FY2020 (Prov.) and its groceries are sold under the brand name 'Patel Fresh'.

The company purchases agro products from the local mandis of various states like Gujarat, Kerala, Tamil Nadu and Madhya Pradesh among others. The company also have two processing units one at Ambarnath, Maharashtra and Gujarat – Dhudai where it carries out processing of pulses, peanuts, cumin seeds, and coriander seeds among others. The company also has a flour mill.

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

- **Established track record of operations, strategic Location of shops and geographically diversified**

The company was incorporated in 2007, thus having an operational track record of over a decade in retail industry. The company has 25 supermarket stores under its own brand 'Patel R. Mart', 2 garment stores under the name of 'Patels R Choice', and one groceries under the brand name 'Patel Fresh'. The company is promoted by Mr. Bechar Patel and Mr. Dhanji Patel, having an 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 relationship suppliers and customers in export market. The same is reflected by improved operating income of the company to Rs. 571.05 crores in FY2019 from Rs. 420.48 crores in FY2018 and Rs. 348.30 crores in FY2017. PRPL has booked revenue of Rs. 639.54 crores in FY2020 (Provisional) and Rs.101 crore in first two months of Q1FY2021. The company is growing at compounded annual growth rate of 16.76 percent since 2016. The company is supported by second line of management. Also, PRPL derives major revenue from sell of essential goods which includes Grocery's, FMCG and processed packed food products leading to minimal impact of lockdown on operations and financial risk profile of the company due to COVID-19.

Further, 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 and quick movement of inventory. Further, the company also exports its products globally to Middle East countries, Africa, Canada, USA, and Australia.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by its moderate net worth, gearing and debt protection measures. The net worth increased to Rs. 60.43 crore as on 31 March, 2020 (Provisional) as against Rs. 50.25 crore as on 31 March, 2019 on account of stable profitability leading to higher accretion to reserves. The net worth includes unsecured loans from promoters of Rs. 32.65 crore in FY2020 (Provisional) and Rs.29.06 Cr. in FY2019 as Quasi Equity. The company's gearing stood at 1.46 times as on 31 March, 2020 (Provisional) as against 1.99 times in the previous year. The company has followed a moderate financial policy in the past, as reflected by its peak gearing of around 1.83 times as on March 31, 2018. The total debt of Rs.88.35 crore outstanding as on as on March 31, 2020 (Provisional) comprises of long term debt of Rs.7.72 crore and Rs. 80.63 crore of working capital obligations. The interest coverage ratio stood at 2.29 times in FY2020 (Provisional) as against 2.14 times in the previous year. The TOL/TNW stood at 1.77 times in FY2020 (Provisional) as against 2.46 times in FY2019. DSCR stood at 1.42 times for FY2020 (Provisional) as against 1.35 times in the previous year. The moderate profitability levels has resulted in healthy net cash accruals of Rs.10.93 crore during FY2020 (Provisional), while the debt levels have remained moderate during the same period, leading to moderate debt protection measures.

Acuite believes that the financial risk profile will continue to remain moderate over near to medium term despite debt funded capex and on account of moderate net cash accruals, and addition of new shops.

Weaknesses

- **Project execution risk**

PRPL is undergoing capital expenditure to set up Multi Product Food Processing Infrastructure for Kutch Agro Processing Cluster Food Processing Units. The total project cost is expected to be ~Rs. 41.64 crores and the company will also be eligible for interest rate and capital subsidy under Kisan Sampada Yojana Scheme to the tune of Rs. 13.71 crore. The funding profile is expected to be in 2.16: 1 (debt to equity ratio). As on May, 2020, the project has been 30 percent completed and the operations are expected to commence in January 2021. As per the initial project report, the commencement of operations was scheduled in July 2020. However, the project has seen some delay on account of various reasons. Timely commencement of the project as per the cost revised timelines with any cost overrun will remain key monitorables. Any further delay in project implementation leading to cost overrun of the project will impinge a negative bias towards the rating.

- **Highly fragmented, competitive industry and agro climatic risk**

The Indian retail industry is marked by presence of large number of organized 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 organized and un-organized. Also, company is transforming itself from a retail outlet to a processing unit for agro commodity products and thus the company will be exposed to risk relating to monsoon and climatic conditions. 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. However, Acuite believes promoters experience and established presence of the company in same industry will reduce such risk to certain extent.

Rating Sensitivities

- Higher-than-expected growth in revenues and profitability
- Further, delay in execution of project leading to significant cost overrun.
- Any deterioration in financial risk profile

Liquidity Position: Adequate

PRPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.8.30 -10.30 crore during the last three years through 2018- 20, while its maturing debt obligations were in the range of Rs. 1.90-4.50 crore over the same period. The company has comfortable working capital cycle marked by GCA days of 68 days in FY2020 (Provisional) as against 86 days in FY2019 and 101 days in FY2018 resulting in moderate reliance on bank lines. The working capital borrowing utilizations stood at ~75 percent during the last six month ending March, 2020. The current ratio of the company stood low at 1.18 times as on March 31, 2020 (Provisional). NCA/TD ratio stood 0.12 times in FY2020 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of improving scale of operations and moderate profitability.

Outlook: Stable

Acuite believes the outlook on the PRPL's rated facilities will remain 'Stable' on account of the established presence in the industry and experienced promoters. The outlook may be revised to 'Positive' if the company achieves higher than expected growth in revenues, profit margins and improves its capital structure. The outlook may be revised to 'Negative' in case of lower-than-expected revenue and profitability or any further deterioration in working capital cycle resulting in deterioration of its financial risk and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	639.54	571.05
PAT	Rs. Cr.	6.62	5.52
PAT Margin	(%)	1.03	0.97
Total Debt/Tangible Net Worth	Times	1.46	1.99
PBDIT/Interest	Times	2.29	2.14

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
01-Mar-2019	Post Shipment Credit**	Short Term	41.70	ACUITE A3 (Reaffirmed)
	Foreign Currency Term Loan	Long Term	0.08	ACUITE BBB-/Stable (Reaffirmed)
	Term loans	Long Term	2.46	ACUITE BBB- / Stable (Reaffirmed)
	Term loans	Long Term	1.57	ACUITE BBB-/Stable (Reaffirmed)
	Warehousing facility	Long Term	5.00	ACUITE BBB-/Stable (Withdrawn)
	Cash Credit#	Long Term	8.50	ACUITE BBB-/Stable (Reaffirmed)
	PCFC(Pre Shipment)^	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Post Shipment Credit	Long Term	2.00	ACUITE A3 (Reaffirmed)
	Working capital demand loan (WCDL)	Long Term	8.00	ACUITE BBB-/Stable (Reaffirmed)
	Term loans	Long Term	1.58	ACUITE BBB-/Stable (Reaffirmed)
	Term loans	Long Term	0.49	ACUITE BBB-/Stable (Reaffirmed)
	Term loans	Long Term	1.85	ACUITE BBB-/Stable (Reaffirmed)
	Term loans	Long Term	1.16	ACUITE BBB-/Stable (Reaffirmed)
	Overdraft@	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank guarantee/Letter of Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Proposed Term Loan	Long Term	4.61	ACUITE BBB-/Stable (Reaffirmed)
	Proposed PCFC (Pre Shipment)	Short Term	5.00	ACUITE A3 (Withdrawn)
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)

**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

*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+ (Upgraded)
Foreign Currency Term Loan	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE BBB/ Stable (Upgraded, Withdrawn)
Term loans	Not Applicable	Not Applicable	Nov-2021	0.72	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Oct-2021	0.36	ACUITE BBB/ Stable (Upgraded)
Cash Credit#	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB/ Stable (Upgraded)
PCFC(Pre Shipment)^	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Upgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Upgraded)
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	8.14	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	March-2021	1.04	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	March-2021	0.21	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	March-2021	1.00	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	March-2021	0.72	ACUITE BBB/ Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Sep-2025	4.61	ACUITE BBB/ Stable (Upgraded)
Overdraft@	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Upgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Upgraded)

Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Upgraded)
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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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