

Press Release

Patel Retail Private Limited

September 16, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.100.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The ratings derive comfort from improving revenue and net profit, resulting in improvement in debt protection metrics. Despite Covid-19-led disruptions, PRPL's operating income increased by 29.41 per cent to Rs.825.37 crore and net profit surged by 62.19 per cent to Rs.11.65 crore. With this, interest coverage ratio improved to 3.16 times and DSCR to 2.19 times in FY21 (Provisional) from 2.33 times and 1.46 times, respectively, in FY20. Further, the company's working capital cycle continues to remain at comfortable level with GCA days standing at 77 for FY21 (Provisional). However, EBITDA margin continues to decline in FY21 (Provisional) to 3.46 per cent from 3.80 per cent in FY20 and 4.04 per cent in FY19.

About the Company

Ambernath, Thane, Maharashtra-based Patel Retail Private Limited (PRPL) 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, Ambernath 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 manufactures and exports spices and other FMCG products to various regions such as Middle East, Africa, Canada, USA, and Australia. The manufacturing including export contributes to ~60 per cent of total sales in FY2021 (Provisional) 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 each at Ambernath, 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 financial and business risk profiles of PRPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations, strategic location of shops and geographically diversified**
PRPL was incorporated in 2007, thus having an operational track record of over a decade in the retail industry. 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 promoters' extensive industry experience has helped PRPL to establish longstanding relationship with suppliers and customers in export market and expansion of store network over the years. PRPL has 25 supermarket stores under its own brand 'Patel R. Mart' besides 2 garment stores under the brand 'Patel R Choice.' The company is also supported by second line of management.

Store expansion has helped PRPL to increase its scale of business. For instance, the company's revenue, in the last two years through March 31, 2021 (Provisional), grew at a CAGR of over 20per cent. In FY21 (Provisional) also, despite Covid-19-led challenges, the company's operating income grew by 29.41per cent to Rs.825.37 crore and its net profit surged by 62.19per cent to Rs.11.65 crore. As PRPL derives major revenue from sell of essential goods which includes Grocery's, FMCG and processed packed food products, impact of the pandemic was not significant. Further, the company's working capital cycle continues to remain at a comfortable level with GCA days standing at 77 for FY21 (Provisional).

However, operating margin has been declining since past couple of years. EBITDA margin in FY21 (Provisional) stood at 3.46per cent compared to 3.80per cent in FY20 and 4.04per cent in FY19. Acuite expects, increase in share of manufacturing business with start of new facility at Dhudai, Bhuj, Kutch, Gujarat, would support margin expansion, which would be a key monitorable going ahead. The agro-processing facility is expected to be operationalized in December 2021.

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**

PRPL has a moderate financial risk profile marked by moderate net worth, moderate gearing position and debt protection metrics. The company's net worth, as on March 31, 2021 (Provisional), stood at Rs.74.29 crore compared to Rs.61.00 crore as on March 31, 2020.

Gearing position (debt to equity ratio) deteriorated marginally to 1.99 times as on March 31, 2021 (Provisional) from 1.46 times a year back. This was led by higher debt level, which stood at Rs.147.66 crore as on March 31, 2021 (Provisional). Total debt, as of March 2021 (Provisional) comprised Rs.23.11 crore of term loans and Rs.124.56 crore of short-term loan. Going ahead, debt to equity ratio is estimated to improve and would trend below unity over a medium term, provided no significant debt-funded capex.

Interest coverage ratio of the company increased to 3.16 times in FY21 (Provisional) from 2.33 times a year back. DSCR of the company too improved to 2.19 times for FY21 (Provisional) from 1.46 times for FY20. Acuite estimates interest coverage ratio of PRPL to improve further to over 5 times by March 2024 and DSCR would stand over 3 times over a medium term.

Weaknesses

- **Agro climatic risk**

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

- **Highly fragmented and competitive industry**

The Indian retail industry is fragmented with presence of large number of organised players, E-retailers and funding from foreign players has boosted entry of new players. PRPL would face high competition from the existing retailers and new entrants, both organised and unorganized, thereby impacting pricing power. Further, slowdown in footfall amid competitive factors will hurt the overall financial risk profile and liquidity of the company.

Rating Sensitivities

- Further contraction in EBITDA margin
- Delay in starting commercial production from new facility

Material Covenants

Nil

Liquidity Position – Adequate

PRPL has adequate liquidity marked by higher cash accruals to maturing debt obligations. The company generated cash accruals of Rs.15.53 crore compared to Rs.2.14 crore of debt repayment in FY21 (Provisional). The company's current ratio stood at a moderate level of 1.24 times as on March 31, 2021 (Provisional), though improved from 1.17 times a year back. Average working capital limit utilization stood higher at ~92per cent during the six months through July 2021.

Acuite expects PRPL's liquidity position would remain adequate over a medium with expected higher cash accruals to maturing debt obligations. Cash accruals, during FY22 to FY24 are estimated in the range of Rs.19.15 crore to Rs.39.15 crore compared to likely debt repayment obligations of Rs.3.75 crore to Rs.3.97 crore during the same period.

Outlook: Stable

Acuite believes PRPL would maintain 'Stable' outlook on account of its established presence in the industry, experienced promoters and start of new agro processing facility. The outlook may be revised to 'Positive' if the company achieves higher than expected growth in revenues and profit margins and improves its capital structure. The outlook may be revised to 'Negative' in case of lower-than-expected revenue and profitability or sharp deterioration in working capital cycle resulting in deterioration of its financial risk and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	825.37	637.81
PAT	Rs. Cr.	11.65	7.19
PAT Margin	(%)	1.41	1.13
Total Debt/Tangible Net Worth	Times	1.99	1.46
PBDIT/Interest	Times	3.16	2.33

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities <https://www.acuite.in/view-rating-criteria-61.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. Cr)	Ratings/Outlook
	Post Shipment Credit**	Short Term	41.70	ACUITE A3+ (Upgraded)
	Foreign Currency Term Loan	Long Term	0.08	ACUITE BBB (Withdrawn)
	Term loans	Long Term	0.72	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	0.36	ACUITE BBB/ Stable (Upgraded)

17-Jun-2020	Cash Credit#	Long Term	8.50	ACUITE BBB/ Stable (Upgraded)
	PCFC(Pre Shipment)^	Short Term	15.00	ACUITE A3+ (Upgraded)
	Post Shipment Credit	Short Term	2.00	ACUITE A3+ (Upgraded)
	Working capital demand loan (WCDL)	Long Term	8.14	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	1.04	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	0.21	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	1.00	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	0.72	ACUITE BBB/ Stable (Upgraded)
	Term loans	Long Term	4.61	ACUITE BBB/ Stable (Upgraded)
	Overdraft@	Long Term	10.00	ACUITE BBB/ Stable (Upgraded)
	Post Shipment Credit	Short Term	5.00	ACUITE A3+ (Upgraded)
	Bank guarantee	Short Term	1.00	ACUITE A3+ (Upgraded)
01-May-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- (Withdrawn)
	Cash Credit#	Long Term	8.50	ACUITE BBB-/Stable (Reaffirmed)
	PCFC(Pre Shipment)^	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Post Shipment Credit	Short 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)
12-Mar-2018	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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Yes Bank	Post Shipment Credit *	Not Applicable	Not Applicable	Not Applicable	41.70	ACUITE A3+ (Reaffirmed)
Yes Bank	Term Loan	Not Available	Not Available	Not Available	0.72	ACIITE BBB/Stable (Reaffirmed)
Yes Bank	Term Loan	Not Available	Not Available	Not Available	0.36	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	Cash Credit**	Not Applicable	Not Applicable	Not Applicable	8.50	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	PCFC (Pre Shipment)***	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Reaffirmed)
HDFC Bank	Post Shipment	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Reaffirmed)
HDFC Bank	WCDL	Not Applicable	Not Applicable	Not Applicable	8.14	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	Term Loan	Not Available	Not Available	Not Available	1.04	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	Term Loan	Not Available	Not Available	Not Available	0.21	ACIITE BBB/Stable (Reaffirmed)

HDFC Bank	Term Loan	Not Available	Not Available	Not Available	1.00	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	Term Loan	Not Available	Not Available	Not Available	0.72	ACIITE BBB/Stable (Reaffirmed)
HDFC Bank	Term Loan	Not Available	Not Available	Not Available	4.61	ACIITE BBB/Stable (Reaffirmed)
Standard Chartered Bank	Overdraft@	Not Applicable	Not Applicable	Not Applicable	10.00	ACIITE BBB/Stable (Reaffirmed)
Standard Chartered Bank	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACIITE A3+ (Reaffirmed)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACIITE A3+ (Reaffirmed)

* Sublimits - Packing Credit - Rs. 41.70 crore, Cash Credit - 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 - Post Shipment - Rs. 15.00.

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

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About Acuité Ratings & Research:

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