

Press Release
Saravana Stores Gold Palace Private Limited

June 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB' (read as ACUITE triple B)** on the Rs. 250.00 crore bank facilities of Saravana Stores Gold Palace Private Limited (SSGPPL). The outlook is '**Stable**'.

Incorporated in May 2017, Saravana Gold Palace Private Limited, is part of the Chennai based Saravana group engaged in retailing of jewellery, textiles, footwear, furniture, household and electronic appliances. The company started operations in September'2017 in a new multi-storied mall spread across 2,30,000 sq feet in Sholinganallur (Chennai). The company is promoted by P.D. Yogarathinam and his family members who have extensive experience in the field of retailing.

In addition to the new retail mall, P.D. Yogarathinam and his family members are managing Saravana Stores Gold Palace, a partnership firm engaged in multi brand retailing at 4 stores in Chennai since 2006.

Analytical Approach: Acuite has consolidated the financial and business risk profile of Saravana Stores Gold Palace Private Limited and Saravana Stores Gold Palace (partnership firm) collectively known as Saravana group on account of common management, same line of business and financial linkages between the two entities. Saravana Stores Gold Palace has also given corporate guarantee to the loan facilities of Saravana Stores Gold Palace Private Limited.

Key Rating Drivers

Strengths

Experienced management

The group is promoted by P.D. Yogarathinam and his family members who have extensive experience in the field of retailing since the past five decades. The family initially started retailing household utensils and over the years has diversified its product portfolio like gold, silver, utensils, textiles, readymade, fancy, electronics, furniture, etc. The group has an established presence in Chennai where they are managing five multi brand stores/ malls with a collective area of over 3 lakhs sq feet.

Healthy revenue and profitability margins

The group has healthy revenue which stood at Rs 404.70 cr in FY 17 as compared to Rs 382.22 cr in FY 16. In September'17 the group commenced operation of a new retail mall in Sholinganallur for high income group which registered revenue of Rs 169 cr till 31st March'18 (prov). On a consolidated basis, the group registered Rs 529 cr till 31st March'18 (prov).

The profitability margins are also healthy at 10.09 percent in FY 17 as compared to 9.93 percent in FY 16. The healthy margins are on account of diversified product profile in its portfolio like textiles (saree, trousers, shirts etc), footwear etc which give higher margins and contributes ~ 30-35 per cent of its revenue. The healthy operating margins are also on account of lower employee, administrative and selling expenses which contributed 3.38 per cent in FY 17 as

compared to 5.39 per cent in FY 16.

Comfortable financial risk profile

The group's financial risk profile is above average marked by healthy net worth, comfortable gearing and debt protection metrics. The net worth stands at Rs 138.47 crs in FY 17 as compared to Rs 78.54 crs in FY 16. The improvement in net worth is on account of Rs 59.93 cr of capital infusion in the business. The gearing improved and stood comfortable at 1.12 times in FY 17 as compared to 2.16 times in FY 16. The interest coverage and debt service coverage ratios stands at 2.83 times and 2.29 times respectively in FY2017 as compared to 2.28 times and 1.91 times respectively in FY2016. Going forward, Acuite believes the financial risk profile of the group to be comfortable in the absence of any major debt funded capex plan in the medium term.

Weaknesses

Working capital intensive operations

The operation is working capital intensive marked by Gross Current Asset (GCA) days of 186 in FY 2017 and as against 167 days in FY 2016. GCA days emanates from inventory holding period of 160 days and 166 days respectively in FY17 and FY 16 respectively. The high inventory is on account of diversified product profile which the group has to keep on display in the retail outlets and in warehouse. The group does not provide any credit to its customers and follows cash and carry basis payment model with customers. On an average, the group utilizes full limit of its working capital facilities.

Outlook: Stable

Acuite believes the Saravana group will continue to benefit over the medium term from its experienced management and established presence in Chennai. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues leading to a fall in the margins, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	404.70	383.22	240.18
EBITDA	Rs. Cr.	40.85	38.03	24.26
PAT	Rs. Cr.	14.29	10.29	9.57
EBITDA Margin	(%)	10.09	9.93	10.10
PAT Margin	(%)	3.53	2.69	3.98
ROCE	(%)	13.44	16.97	31.67
Total Debt/Tangible Net Worth	Times	138.47	78.54	48.88
PBDIT/Interest	Times	2.83	2.28	2.83
Total Debt/PBDIT	Times	3.81	4.45	4.41
Gross Current Assets (Days)	Days	186	167	208

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE BBB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Stable (Assigned)
Proposed Long Term Facilities	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:

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