

Press Release

Saravana Selvarathnam Retail Private Limited

October 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.138.83 crore
Long Term Rating	ACUITE BBB/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE BBB' (read as ACUITE Triple B)** on the Rs.138.83 crore bank facilities of **Saravana Selvarathnam Retail Private Limited (SSRPL; part of Saravana Group)**. The outlook is **'Stable'**.

Established in 2005, SSRPL was promoted by Mr. Selvarathnam Saravana Arul (Mr Arul) in Chennai, Tamil Nadu. Saravana Stores, with four decades of leadership in retail business which was founded by his father Late Mr. Saravana Selvarathnam in 1970's now operate under SSRPL. SSRPL presently operates three stores in Chennai and one in Coimbatore which are engaged in trading of gold, Silver and Diamond ornaments, Textiles and Readymade garments, Footwear and Cosmetics, House hold articles, electronics goods & mobile phones, grading and packing of provisions, furniture, fruits & vegetables among others.

For FY18, SSRPL reported profit after tax (PAT) of Rs.81.05 crores on net sales of Rs.514 crores on provisional basis against PAT of 15.99 crores on net sales of Rs.491.18 crores for FY17. Networth was at Rs.182.80 crores on provisional basis as on March, 2018 vis-à-vis Rs.101.75 crores as on March, 2017.

Established in 2014, Shri Rathna Akshaya Estates Pvt Ltd (SRAEPL) was promoted by Mr. Selvarathnam Saravana Arul (Mr Arul) in Tamil Nadu. SRAEPL presently operates two stores – one in Madurai and one in Tirunelveli. SRAEPL is engaged in same line of business as that of SSRPL.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of SSRPL and SRAEPL (herewith referred to as Saravana group or group) to arrive at the rating. The consolidation was on account of common promoters, common line of business, common procurement policies and significant amount of operational and financial linkages.

Key Rating Drivers

Strengths:

- **More than four decades of established brand presence in Tamil Nadu, long standing track record and extensive experience of promoters**

The group has been in existence since 1970's. Saravana Stores, with four decades of leadership in retail business, is among the largest family owned enterprises in Tamil Nadu. Founder promoter Late Mr Saravana Selvarathnam had an experience in the retail market for over four decades, and the current promoter Mr Arul has for more than two decades in corporate retail market segment. The brand 'Saravana Selvarathnam Stores' is also well known across the country and the group is a pioneer in retail selling in Chennai through volume-driven sales of commodities and targets low- and middle-income customers, whose brand preferences tend to be limited. The group has strong procurement linkages owing to large scale of operations, and also commands pricing of cost-plus-

nominal mark-up from manufacturers. Group has expanded with three stores in Chennai until 2005 to one each in Coimbatore, Madurai and Tirunelveli as on date. Apart from the above, the group is planning to construct state of the art showroom at Chennai. Acuité believes that more than four decades of established brand presence in Tamil Nadu, long standing track record and extensive experience of promoters would continue to aid the business risk profile of the group over the medium term.

- **Healthy revenue generation from each store and diverse product mix**

Each store under SSRPL and SRAEPL has been contributing fairly to the overall revenue depending on the store size and products traded. Groups' established brand presence in the Tamil Nadu retail chain market has helped the newly opened stores to clock in healthy revenue in its first year of operations. The same can be observed from the way the revenues scaled up for its new stores in Coimbatore, Madurai and Tirunelveli with revenue contribution at 12.87%, 21.15%, and 20.26% to the total revenues in FY2018. Of the total revenues, major contribution is from three of the Chennai based stores at about 40 per cent, followed by Madurai and Tirunelveli at 21 per cent each, Coimbatore at about 13 per cent and rest about 5% from others which were sold in July, 2017. Further, the revenues are from diverse product segments - gold, Silver and Diamond ornaments contributing about 35 per cent followed by Textiles and Readymade garments, Footwear and Cosmetics, House hold articles, electronics goods & mobile phones, grading and packing of provisions of about 52 per cent and remaining products contributed about 13 per cent in FY18. Acuité believes that with healthy store wise revenue contribution and diverse product mix would continue to support the scale of operations over the medium term.

- **Strong revenue growth and improving EBITDA margins**

The group's revenue has shown multi-fold growth over the last 3 years ending March, 2018 from Rs.392.00 crores in FY15 to Rs.885.89 crores in FY18 (provisional); reflecting a compound annual growth rate (CAGR) of about 31 per cent for over four years through FY2018. For five months through August 2018, the group has booked revenues of Rs.364.37 crores. The revenue growth is driven by continuous store addition, established brand presence and deeper penetration at new markets. Consolidated EBITDA margins have been improving from 4.17 per cent in FY16 to 6.44 per cent in FY18 due to its strong procurement linkages with 2000 plus vendor for last two-three decades, and improving product mix with high margin revenue products. Acuité believes that revenue would continue to grow in positive traction with EBITDA margins remaining stable in the range of 5.5-6 per cent over the medium term.

- **Moderate Working capital cycle**

Group's operations are moderately working capital intensive with Gross Current Assets (GCA) in the range of 68-144 days over the last three years ending March, 2018; driven mainly by high inventory holding at about 100 – 120 days keeping in view of huge varieties of products and to ensure no stock out position. It would mostly follow inventory replenishment method for its majority of items like jewellery, FMCG products among others. The group doesn't face any major pricing risk as it is aware of the fast- and slow-moving items. It has established relation with more than 200 vendors for jewellery, and 2000 plus for all other products through C&F agents, stockists. High inventory holding and continuous store addition has led to high dependence on bank lines which remained utilised at 98 per cent over the past six months ending August, 2018. Acuité believes that working capital cycle would remain moderate given its high inventory holding policy.

- **Comfortable financial risk profile**

Group has healthy financial risk profile marked by healthy capital structure and deb protection metrics. Group's gearing has improved to 0.56 times as on March, 2018 from 1.07 times as on

March, 2017 due to lower reliance on bank lines, infusion of equity and unsecured loans (subordinated) and profit on sale of assets of Rs.82.34 crores; as a result, Networth improved to Rs.277.07 crores as on March, 2018 from Rs.136.85 crores. Group's healthy net cash accruals and moderate debt has led to healthy NCA/TD and interest coverage of 6.73 times and 0.68 times in FY18 vis-à-vis 3.49 times and 0.15 times in FY17. Gearing is expected to deteriorate due to debt funded capex of about Rs.280.0 crores (proposed to be funded at a debt-to-equity of 2:1), yet expected to remain at comfortable levels of about 0.70 - 1.4 times over the medium term; supported by healthy cash accruals in the range of Rs.27 – 37 crores vis-à-vis modest repayment obligations of about Rs.5.82 crores from the current operations, while the debt drawl happens over a period of 18 -24 months. Acuite believes that financial risk profile would remain comfortable over the medium term despite the huge debt funded capex underway.

Weaknesses:

- **Exposure to project risks associated with its on-going capital expenditure to construct a store at Chennai**

The project of about Rs.280.0 crores is proposed to be funded at a debt-to-equity of 2:1. The management has submitted loan proposal and financial closure yet to happen, leading to high funding risk. However, Promoters being high networth individuals would support the business in terms of any exigencies. Group under SRAEPL is undertaking a capex to construct a state of art showroom at Chennai. Total construction cost is estimated at about Rs.280.0 Crores (excluding land already purchased). The proposed project is expected to be completed within a period of 18-24 months; however, currently it's at nascent stage of operations with just land purchased which results in high implementation risks. As on date, all the necessary approvals have been obtained through single nodal agency – Chennai Municipal Development Authority (CMDA). The project work is expected to start once the term loan is sanctioned. Acuite believes that timely sanction of term loan and project implementation are key rating sensitivity factors over the medium term, though the Management is confident enough to part operationalize the project by around H2FY2020.

- **Exposure to intense competition in the retailing industry, constraining its operating margin:**

Group has shopping complexes on the high streets of Chennai, which are flooded with small and large players in the same line of business. Group faces intense competition in terms of product quality and pricing, which leads to continuous pricing pressure, affecting its margins.

Outlook:

Acuite believes that the group will maintain its business risk profile, over the medium term, supported by its established brand presence in Chennai. The outlook may be revised to 'Positive' in case of timely completion of the project, and better-than-expected revenues and healthy cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any significant cost or time overrun in the project leading to stretch in the liquidity and deterioration of its financial risk profile.

About the Rated Entity Financials – Consolidated

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	885.89	541.50	495.81
EBITDA	Rs. Cr.	57.08	27.35	20.67
PAT	Rs. Cr.	95.65	16.70	3.52
EBITDA Margin	(%)	6.44	5.05	4.17
PAT Margin	(%)	10.80	3.08	0.71
ROCE	(%)	36.15	18.86	17.20

Total Debt/Tangible Net Worth	Times	0.56	1.07	0.83
PBDIT/Interest	Times	6.73	3.49	1.64
Total Debt/PBDIT	Times	1.11	2.93	4.43
Gross Current Assets (Days)	Days	118	114	68

Status of non-cooperation with previous CRA: Not Available

Any other information: Not Available

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-6.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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	130.00	ACUITE BBB/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	8.83	ACUITE BBB/Stable (Assigned)

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About Acuite Ratings & Research:

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