

Press Release

Saravana Selvarathnam Retail Private Limited

December 30, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs.138.83 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Downgraded from ACUITE BBB/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs.138.83 crore bank facilities of SARAVANA SELVARATHNAM RETAIL PRIVATE LIMITED. The outlook is '**Stable**'.

Key Reason for Downgrade

The rating downgrade is driven by the sequential decline in operating income levels, operating profits and net cash accruals coupled with deterioration in its financial risk profile. The Company reported an overall decline in operating income from Rs.490.65 crore in FY2017 to Rs.439.18 crore in FY2019. This coupled with lower sales contribution of the jewelry segment as resulted in lower operating profit levels, which has further dropped down and led to decline in net cash accruals from Rs.20.51 crore in FY2017 to Rs.6.19 crore in FY2019. Further, ratings have been constrained on account of sequential deterioration in financial risk parameters of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD). Any further decline in profitability levels leading to further deterioration of financial risk profile will be a key rating sensitivity factor.

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

Change in Analytical Approach

Acuité has revised its analytical approach and has taken a standalone view of the business and financial risk profile of SSRPL to arrive at the rating. The revision in analytical approach is on account of reducing intercompany transactions and management stated posture of managing the businesses separately.

Key Rating Drivers

Strengths

- **Established track record of operations and extensive experience of management**

The group has been into existence since 1970s. Saravana Stores, with four decades of leadership in retail business, is among the largest family owned enterprises in Tamil Nadu. Promoters are having rich experience in the retail market for over 40 years and have wide reputation in entire 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. The company has strong procurement linkages owing to large scale of operations, and also commands pricing of cost-plus-nominal mark-up from manufacturers. 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.

- **Average financial risk profile**

The Company's financial risk profile is average, marked by healthy net worth, low gearing although partly constrained by deteriorating debt protection metrics. The tangible net worth stood healthy at Rs.192.90 crore as on March 31, 2019. The net worth has grown gradually from Rs.100.69 crore as on March 31, 2017.

The growth in net worth is fueled by healthy accretion to reserves and profits made on sale of assets. The gearing remains low at 0.72 times as on March 31, 2019 against 0.47 times as on March 31, 2018. TOL/TNW has also remained low at 0.99 times as on March 31, 2019 against 0.83 times as on March 31, 2018. The leverage level will continue to remain healthy with gearing of 0.60 times to 0.75 times in the medium term. And TOL/TNW is expected to remain in the range of 0.90 times to 0.99 times in the medium term. The total debt of the company stood at Rs.139.13 crore as on March 31, 2019 which consisted of short term borrowings of Rs.131.83 crore, long term borrowings of Rs.7.15 crore and unsecured loans of Rs.0.14 crore.

The Company has moderate profitability margin in the range of 5-6 percent over the last three year ended FY2019. The modest profitably levels vis-à-vis its debt level has resulted in moderate debt protection metrics. The interest coverage ratio stood (ICR), debt service coverage ratio (DSCR) and net cash accruals to total debt (NCA/TD) stood at 1.51 times, 1.21 times and 0.04 times respectively for FY2019. Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves, absence of significantly debt funded capex and moderate profitability margins.

Weaknesses

- **Decline in topline coupled with decline in profitability margins**

The Company's top line has reflected decline over the last 3 years ending March, 2019 from Rs.490.65 crores in FY2017 to Rs.439.18 crores in FY2019. For six months through September 2019, the company has booked revenues of Rs.231.40 crores. The decline in revenue is mainly due to sales offer schemes being materialised at the last quarter of FY2019. EBITDA margins have remained fluctuating from 4.89 percent in FY2017 to 6.82 percent in FY2018 and 5.67 percent in FY2019. Further, the profitability margins had also witnessed a significant decline from 3.26 percent at FY2017 to 0.91 percent in FY2019 due to high interest obligations. Acuité believes that revenues are expected to grow but remain in the similar lines with respect to introduction of newer stores and product variants to achieve growth in retail industry.

- **Moderate working capital management**

SSRPL's operations are moderately working capital intensive with Gross Current Assets (GCA) in the range of 220 days over the last three years ending March, 2019; driven mainly by high inventory holding at about 187 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 jewelry, 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 jewelry, 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 93 per cent over the past six months ending October, 2019. Acuité believes that working capital cycle would remain moderate given its high inventory holding policy.

- **Exposure to intense competition in the retailing industry**

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

Rating Sensitivities

- Improvement in the revenues while being able to sustain the profitability margins
- Decline in profitability leading to deterioration of financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

Liquidity profile of SSRPL is adequate marked by modest cash accruals against its repayment obligations. The net cash accruals generated in FY2019 stood at Rs.6.19 crore. The net cash accruals are further expected to remain in the range of Rs.7.00 crore to Rs.11.00 crore against repayment obligations of Rs.2.55 crore. The Company also has an unencumbered cash and bank balance of Rs.4.07 crore. The current ratio stood at 1.42 times in FY2019 as compared to 1.56 times in FY2018. The working capital facilities are utilised highly at ~93.00 percent for last six months ending October 2019. Acuité believes that with moderate accruals to obligations and incremental working capital requirements, the liquidity is expected to remains at adequate level over the medium term.

Outlook: Stable

Acuité believes SSRPL's business risk profile will remain 'Stable' over the medium term from the extensive experience of the promoters and the established brand name "Saravana". The outlook may be revised to 'Positive' in case of significant improvement in the revenues while balancing the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of further stretch in its working capital cycle or decline in its financial risk profile and liquidity caused by decline in its profitability.

About the Rated Entity - Key financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	439.18	462.58
PAT	Rs. Cr.	4.00	6.74
PAT Margin	(%)	0.91	1.46
Total Debt/Tangible Net Worth	Times	0.72	0.47
PBDIT/Interest	Times	1.51	2.40

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-Oct-2018	Cash Credit	Long Term	130.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	8.83	ACUITE BBB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE BBB-/Stable (Downgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	8.83	ACUITE BBB-/Stable (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sagarikaa Mukherjee Analyst - Rating Operations Tel: 040-40042327	

sagarikaa.mukherjee@acuite.in

About Acuité Ratings & Research:

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