Press Release

Shri Rathna Akshaya Estates Private Limited

October 05, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.275.31 crore
Long Term Rating	ACUITE BBB/ Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB' (read as ACUITE Triple B)** on the Rs.275.31 crore bank facilities of **Shri Rathna Akshaya Estates Private Limited (SRAEPL; part of Saravana Group).** The outlook is **'Stable'.**

Established in 2014, Shri Rathna Akshaya Estates Pvt Ltd (SRAEPL) was promoted by Mr. Selvarathnam Saravana Arul in Tamil Nadu. SRAEPL presently operates two stores – one in Madurai and one in Tirunelveli 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, packing of provisions, furniture, fruits & vegetables among others.

For FY18, SRAEPL reported profit after tax (PAT) of Rs.14.59 crores on net sales of Rs.370.05 crores on provisional basis against PAT of Rs.0.72 crores on net sales of Rs.50.80 crores for FY17. Networth was at Rs.120.73 crores on provisional basis as on March, 2018 vis-à-vis Rs.44.10 crores as on March, 2017.

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.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of SRAEPL and Saravana Selvarathnam Retail Pvt Ltd (SSRPL) (herewith referred as the Saravana 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 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, whose brand preferences tend to be

limited. The company 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 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 it s first year of operations. The same can be observed from the way the revenue has scaled up for its new stores in Coimbatore, Madurai and Tirunelveli at Rs.114 crores, Rs.187.39 crores and Rs.182.66 crores, respectively in its first full year of operations. Three stores in Chennai contributed 40.1 per cent, Coimbatore Store contributed 12.89 percent, Madurai contributed 21.19 per cent and Tirunelveli contributed 20.66 per cent in FY18. The group also has presence in diverse products like gold, Silver and Diamond ornaments, Textiles and Readymade garments, Footwear and Cosmetics, House hold articles, electronics goods & mobile phones, grading, packing of provisions, furniture, fruits & vegetables among others. Jewellery (All Types) contributed 35.38 per cent, Textiles, Pulces, Vegetables, Fruits & plastic items contributed 51.70 per cent and remaining products contributed 12.92 per cent in FY18. Acuité believes that with healthy store wise revenue contribution and diverse product mix would continue to support the scale of operation 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. The group has already booked revenue of Rs.364.37 crores as on August, 2018. This growth is attributed to continuous store addition and healthy ramp up in the same. The quick revenue generation from the newly added stores due to its established presence and continuous revenue generation from existing stores has led to positive growth. 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 2-3 decades and sales of comparatively high margin 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 capital intensive with Gross Current Assets (GCA) in the range of 68-144 days over the last 3 years ending March, 2018 driven by mainly high inventory holding. The group has been holding inventory of around 100-120 days which is mostly the inventory held at various stores. It would mostly follow inventory replenishment method for its majority items like jewellery, FMCG, etc. The group doesn't face any major pricing risk as it is aware of the fast and slow moving items. Also, since, it has established procurement linkages, any items under FMCG, electronics would be replenished immediately. It has established relation with 200 vendors for jewellery, and 2000 plus for all other products through C&F agents, stockiest, etc. 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.

- **Heathy 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 as well as infusion of equity and higher NCAs due to one-time income from profit of sale of assets of Rs.82.34 crores. Networth improved to Rs.277.07 crores as on March, 2018 from Rs.136.85 crores in previous year due to equity and Unsecured loan infusion. 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 Rs.280.53 crores, yet expected to remain at comfortable levels; as the cash accruals are adequate to service debt obligations besides moratorium period of one year post completion of the project (i.e., after 18 months) and ballooning principal repayment expected to start from FY22. Acuité 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 Rs.280.53 crores is to be funded in debt to equity ratio of approximately 66:33. Group has not yet tied up for the funding of the project leading to high funding risk. It has submitted the proposal to Bank for term loan. 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 Rs.280.53 Crores (excluding land already purchased). The project proposed to be completed within a period of 15 to 18 months.
  Project is in 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 nodel agency – Chennai Municipal Development Authority (CMDA). The excavation and construction work is expected to start once the term loan is approved. The project is likely to start its full operations from FY21.

- **Exposure to intense competition in the retailing industry, constraining its operating margin:** Group has shopping complexes on the high streets of Chennai, which are filled 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:

Acuité believes that 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 early stabilization 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	75.00	ACUITE BBB/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	185.31	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:

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