

Press Release

Shri Rathna Akshaya Estates Private Limited

December 30, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.275.31 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating at '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs.275.31 crore bank facilities of SHRI RATHNA AKSHAYA ESTATES PRIVATE LIMITED. The outlook is '**Stable**'.

The rating reaffirmation is on account of sustenance of SRAEPL's business and financial risk profile with growth in operating income and its profitability. SRAEPL's revenue has improved marginally to Rs.384.83 crore in FY2019 from Rs.374.31 crore in FY2018, while its operating profitability has marginally declined by 22.8 bps to around 10.22 per cent in FY 2019. The company is currently undertaking a capex to construct a state of art showroom at Pallavaram, Chennai. The Total construction cost is estimated at about Rs.280.0 Crores (excluding land already purchased) which will be funded by way of term loans of about Rs.180.31 crore and promoter's money of about Rs.96.0 crore. The new store is expected to be operational from April 2021 which will add to the revenues and profitability going forward. Further, the rating also factors project risk in completion of its on-going project and expected growth in performance from the new project.

Established in 2014, Shri Rathna Akshaya Estates Private Limited (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.

Analytical Approach

Acuité has revised its analytical approach and has taken a standalone view of the business and financial risk profile of SRAEPL 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 the management**

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 lower 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 financial risk profile**

The Company's financial risk profile is healthy, marked by healthy net worth, low gearing supported by average debt protection metrics. The tangible net worth stood healthy at Rs.160.46 crore as on March 31, 2019. The net worth has grown gradually from Rs.44.10 crore as on March 31, 2017. The growth in net worth is fueled by healthy accretion to reserves and quasi equity infusion by the promoters regularly. The gearing remains low at 0.55 times as on March 31, 2019 against 0.61 times as on March 31, 2018. TOL/TNW has also

remained low at 0.75 times as on March 31, 2019 against 0.83 times as on March 31, 2018. The gearing level will deteriorate but continue to remain average with gearing of 0.60 times to 1.00 times in the medium term owing to debt funded capital expenditure to set up the new showroom. TOL/TNW is similarly expected to witness a decline but remain in the range of 0.88 times to 1.20 times in the medium term. The total debt of the company stood at Rs.87.59 crore as on March 31, 2019 which consisted of short term borrowings of Rs.75.86 crore, long term borrowings of Rs.11.73 crore. The Company has moderate profitability margin in the range of 9-10 percent over the last three year ended FY2019. The moderate profitably levels vis-à-vis its debt level has resulted in average 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 3.85 times, 2.31 times and 0.23 times respectively for FY2019. Acuité expects the financial risk profile to remain average over the medium term on account of healthy accretion to reserves, absence of significantly debt funded capex and moderate profitability margins.

• **Moderate working capital management**

SRAEPL's operations are moderately working capital intensive with Gross Current Assets (GCA) in the range of 120-140 days over the last three years ending March, 2019; driven mainly by high inventory holding at about 149 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 90 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.

Weaknesses

• **Exposure to project risks associated to its on-going capital expenditure to construct store at Pallavaram, Chennai**

SRAEPL is undertaking a capex to construct a state of art showroom at Pallavaram, Chennai. Total construction cost is estimated at about Rs.280.0 Crores (excluding land already purchased) which will be funded by way of term loans of about Rs.180.31 crore and promoter's money of about Rs.96.0 crore. The proposed project is expected to be completed within a period of 15-18 months with an affirmed COD of April, 2021; however, currently it's at nascent stage of construction 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 has started and currently about Rs.40 crore worth of work has been completed with promoter's money. However, keeping in light the risks associated, promoters being high net worth individuals would support the business in terms of any exigencies. Acuité believes that timely sanction of term loan and project implementation is key rating sensitivity factors over the medium term.

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

SRAEPL has shopping complexes on the high streets of Madurai and Tirunelveli, 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

- Steady business performance with respect to increase in its turnover and profitability margins
- Time and cost overrun in the completion of the capital expenditure
- Stretch in working capital management leading to deterioration of its financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

Liquidity profile of SRAEPL is adequate marked by healthy cash accruals against its repayment obligations. The net cash accruals generated in FY2019 stood at Rs.20.08 crore. The net cash accruals are further expected to remain in the range of Rs.23.00 crore to Rs.30.00 crore against repayment obligations of Rs.2.91 crore in the medium term. The repayments of the new term loan proposed begin from FY23 thereby giving adequate cushion to liquidity in the medium term. The Company also has an unencumbered cash and bank balance of Rs.0.68 crore. The current ratio stood at 1.30 times in FY2019 as compared to 1.33 times in FY2018. The working capital facilities are utilised highly at ~90.00 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 SRAEPL'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 any time or cost overrun in the project leading to stretch in liquidity and deterioration of its financial risk profile.

About the Rated Entity - Key financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	384.83	374.31
PAT	Rs. Cr.	16.84	19.67
PAT Margin	(%)	4.38	5.26
Total Debt/Tangible Net Worth	Times	0.55	0.61
PBDIT/Interest	Times	3.85	4.19

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 Trading sector- <https://www.acuite.in/view-rating-criteria-61.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	75.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Short Term	15.00	ACUITE BBB/Stable (Assigned)
	Proposed Bank Facility	Short Term	185.31	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	75.00	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	185.31	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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