Press Release

Sathya Agencies Private Limited

November 17, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 56.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** to the Rs. 56.50 crore bank facilities of Sathya Agencies Private Limited (Sathya). The outlook is **'Stable'**.

Incorporated in 1987, Sathya is a Tuticorin (Tamil Nadu) based consumer electronics and home appliances retail chain and it is one of the leading multi-brand retail chain. The company runs the retail chain under the brand name 'Sathya' founded by Mr. John Samuel and opened its first showroom in 1987 at Tuticorin. Sathya deals with all leading consumer electronics manufacturers such as Sony, LG, Philips, Samsung among others. As on March 31, 2018, Sathya has 82 running outlets across Tamil Nadu and Pondicherry with an operating area of about 2.9 lakh square feet.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Sathya to arrive at this rating.

Key Rating Drivers

Strengths

- **Promoter's experience in the retail trade of consumer durables**

The company is managed by experienced promoter and management who are in the consumer-durables retail segment for nearly three decades. Sathya commenced operations in 1987 as a retailer for household appliances and consumer electronics and has been adding stores every year, primarily in the South Indian retail market. Operating in the market for more than three decades has helped the company in establishing a healthy brand presence in Tamil Nadu; and has strong relationship with the manufacturers such as LG, Samsung, Sony, Whirlpool, Godrej, Haier, Panasonic, Voltas Limited, IFB among others which lends stability to its business risk profile and for store expansion.

This has helped in reporting a healthy revenue growth at a compound annual growth rate (CAGR) of about 38 percent over three years through FY2018. Acuité believes that more than three decades of established brand presence in Tamil Nadu, long standing operational track record and extensive experience of promoters would continue to aid in improving the business risk profile of the Sathya over the medium term.

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

Sathya's revenue has shown multi-fold growth over the last 3 years ending March, 2018 from Rs.478.40 crore in FY16 to Rs.913.38 crore in FY18; reflecting a CAGR of about 38 percent for over three years through FY2018. For six months through September 2018, Sathya has booked revenues of Rs.504.65 crore. The revenue growth is driven by continuous store addition, established brand presence and deeper penetration in new markets. Sathya has added 10 new stores in the current year, and plans to add at least five – ten stores per annum over the medium term.

EBITDA margins have improved from 1.96 percent in FY16 to 2.78 percent in FY18, though thin due to its strong procurement linkages with its vendor for last two-three decades, and improving product mix with high margin revenue products and economies of scale of operations. Acuité believes that revenue would continue to grow in positive traction on the back of launch of new stores and higher revenues from existing stores, better economies of scale are expected to drive the revenues and profitability.

Weaknesses

- **Below-average financial risk profile**

Sathya's financial risk profile is marked by modest net worth, weak capital structure though supported by moderate debt protection measures. Sathya's net worth is modest at around Rs.22.68 crore as on March 31, 2018, an improvement from Rs.12.77 crore as on March 31, 2017; due to accretion to reserves. The company's capital structure is weak marked by its high gearing (debt-to-equity) at 4.08 times as on March 31, 2018 (PY: 7.05 times); and high TOL/TNW of 6.71 times in FY2018 (PY: 10.86 times). Sathya's debt protection metrics are moderate with interest coverage ratio of 3.58 times and NCA/TD of 0.13 times in FY2018.

Sathya has generated cash accruals of Rs.14.06 crore in FY2018; its cash accruals are expected in the range of Rs.11.07 – 16.57 crore over the medium term against which its repayment obligations are around Rs.1.00 crore. Further, the company invests about Rs.8.00-9.00 crore per annum on store expansion, which is generally funded at a debt-to-equity of 3:1. Sathya's working capital intensity has consistently increased on account of sizeable inventory levels required at retail stores (existing and new); so the overall debt levels have also increased. Acuité believes that the capital structure and debt protection metrics will remain at similar levels over the medium term.

- **Moderate working capital cycle**

Sathya's operations are moderately working capital intensive with Gross Current Assets (GCA) in the range of 57-62 days over the last three years ending March, 2018; driven mainly by high inventory holding at about nearly two months keeping in view of huge varieties of products and to ensure no stock out position. High inventory holding and continuous store addition has led to high dependence on bank lines which remained utilised at 98 percent over the past six months ending September, 2018. Acuité believes that working capital cycle would remain moderate given its nature of operations.

- **Consumer Electronics industry charecterised by intense competition**

The company faces intense competition from e-commerce players, other large mobile retail chains and a large number of unorganised stores. Consumer electronics industry remains highly dynamic in nature, as illustrated by growing competition from e-commerce players, changing trading margins offered by leading brands, entry of various foreign/Indian mobile brands with online/offline selling strategies. This may affect the growth prospects and operating-margins in the long-term for store formats.

Outlook: Stable

Acuité believes that the outlook on Sathya will remain 'Stable' over the medium term on account of the established presence in the form of brand image and the extensive experience of its promoter. The outlook may be revised to 'Positive' in case of significant improvement in its capital structure through equity infusion, while sustaining the revenue growth and profitability. Conversely, the outlook may be revised to 'Negative' in case of stretch in its working capital management or larger-than-expected debt-funded capex, leading to further deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	913.38	713.26	478.40
EBITDA	Rs. Cr.	25.40	14.85	9.36
PAT	Rs. Cr.	9.91	3.29	(0.22)
EBITDA Margin	(%)	2.78	2.08	1.96
PAT Margin	(%)	1.08	0.46	(0.05)
ROCE	(%)	22.02	14.62	9.66
Total Debt/Tangible Net Worth	Times	4.08	7.05	7.69
PBDIT/Interest	Times	3.58	2.08	1.34
Total Debt/PBDIT	Times	3.33	5.61	7.04
Gross Current Assets (Days)	Days	57	63	62

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
- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Trading Entities: https://www.acuite.in/view-rating-criteria-6.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. Cr.)	Ratings/Outlook
Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB+/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB+ /Stable (Assigned)
Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB+/ Stable (Assigned)

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