

Press Release

Prakash Retail Private Limited

January 10, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 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. 45.00 crore bank facilities of Prakash Retail Private Limited (PRPL). The outlook is '**Stable**'.

Incorporated in 1999, Prakash Retail Private Limited (PRPL) is an Udupi (Karnataka) based company, promoted by Mr. Surya Prakash K. The company is engaged in the business of dealing in consumer electronics and home appliances. PRPL has 14 stores spread across the cities of Karnataka such as Udupi, Mangalore, Puttur, Kundapura, Shimoga, Hubli, Belgaum and Dharwad, among others with an aggregate floor space of about 2.3 lakh sq. ft. The company operates showrooms under the brand / store name 'Harsha'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Moderate working capital management**

PRPL has moderate working capital operations as evident from Gross Current Assets (GCA) of 90 days in FY2018 as against 78 days in FY2017. Inventory days are moderate at about 72 days as on March 31, 2018 as against 66 days as on March 31, 2017. This was due to requirement of huge stocks with wide range of varieties across the stores. Debtor days are low at 4 days over the years under review, which is an industry scenario and mostly pertains to credit card sales. Creditors stood at around 72 days in FY2018 as compared to 65 days in FY2017. Due to high stock levels, the average utilisation of its bank lines over the past six months through September, 2018 is high at around 96 percent. Acuité believes that PRPL's working capital operations are expected to be at similar levels over the medium term considering the increasing scale of operations and requirement of huge stocks at all the stores.

- **Experienced management and established brand presence**

The promoter has an established track record of operating home appliance retail stores under the brand name 'Harsha' for nearly three decades in Karnataka. The company has a wide product portfolio of Home Appliances, TV & Audio, Kitchen Appliances, Phone & Tablets, and Camera, among others. PRPL is promoted and managed by Mr. Surya Prakash. He has around 35 years of experience in home appliance trading. He is instrumental in creating the brand Harsha. PRPL has around 14 stores spread across Karnataka.

PRPL has established relations with its original equipment manufacturers (OEM's) such as LG Electronics India Pvt Ltd, Samsung India Electronics Ltd, Sony India Pvt. Ltd, Godrej And Boyce Mfg Co. Ltd, Panasonic India Pvt Ltd and Haier Appliances (India) Pvt. Ltd., among others. PRPL has reported operating income of Rs.345.77 crore in FY2018 as compared to Rs.290.91 crore in FY2016. To support the incremental operations, the promoter has been supporting and infusing funds in the form of capital or unsecured loans. The management is planning to open, on an average, three to four stores per annum. Acuité believes that the promoter's business experience, established brand presence, addition of stores would support in improvement of its business risk profile over the medium term.

Weaknesses

• Weak financial risk profile

The financial risk profile is marked by high total outside liabilities to total net worth (TOL/TNW), high gearing (debt-to-equity), moderate net worth and debt protection metrics. TOL/TNW stood high at 7.87 times as on March 31, 2018 (PY: 7.72 times) due to modest net worth. Also, gearing is high at 3.39 times as of March 31, 2018 as compared to 3.26 times as of March 31, 2017. The net worth is modest at Rs.13.30 crore as on 31 March, 2018, improved by Rs.1.13 crore as compared to FY2017; it was mainly due to accretion of profits to internal accruals. PRPL has generated cash accruals of Rs.5.49 crore in FY2018; its cash accruals are expected to be in the range of Rs.6.0 - 10.0 crore over the medium term against which its repayment obligations are around Rs.4.0 - 6.0 crore. PRPL plans to open atleast 3-4 stores every year, and requires debt-funded investment of about Rs.6.0 - 8.0 crore for setting up of the stores. PRPL's debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.29 times and 0.12 times respectively for FY2018 as against 2.29 times and 0.13 times respectively for FY2017. Acuité believes that the financial risk profile is expected to be at similar levels as the firm is envisaging minor debt-funded capex plans on a regular basis, besides incremental working capital requirements.

• Stable industry outlook albeit competitive industry

The retail business has low entry barriers and highly competitive due to presence of innumerable unorganised players in the industry. The e-commerce industry is also expanding at a rapid pace in the country and poses a threat to the brick and mortar retail business. Nevertheless, overall credit profile of brick and mortar retail companies is expected to remain stable over the medium to long term given the bright prospects of the rural customers still preferring this format for shopping.

Outlook: Stable

Acuité believes that PRPL will maintain a 'Stable' financial risk profile over the medium term backed by its experienced management, and moderate working capital management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its operating income while maintaining its profitability margins and improving its capital structure through equity infusion. The outlook may be revised to 'Negative' in case of any stretch in its working capital management or higher-than-expected debt-funded investment on store expansion leading to 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.	345.77	337.47	290.91
EBITDA	Rs. Cr.	10.63	10.08	9.18
PAT	Rs. Cr.	1.18	1.15	1.41
EBITDA Margin (%)	(%)	3.07	2.99	3.16
PAT Margin (%)	(%)	0.34	0.34	0.48
ROCE (%)	(%)	11.22	12.27	25.16
Total Debt/Tangible Net Worth	Times	3.39	3.26	3.01
PBDIT/Interest	Times	2.29	2.29	2.55
Total Debt/PBDIT	Times	4.24	3.90	3.61
Gross Current Assets (Days)	Days	90	78	88

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE BB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	11.80	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB+ / Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	4.17	ACUITE BB+ / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	7.38	ACUITE BB+ / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Sethu Madhav Analyst - Rating Operations Tel: 040-40055480 sethu.madhav@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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