

Press Release

Prakash Retail Private Limited

January 23, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.45.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.45.00 crore of Prakash Retail Private Limited (PRPL). The outlook is '**Stable**'.

Udupi (Karnataka) based, Prakash Retail Private Limited (PRPL) was established in 1985 as a partnership firm by five brothers, Mr. Surya Prakash K, Mr. Ashok Kumar K, Mr. Harish K, Mr. Suresh M and Mr. Rajesh M. Subsequently, the constitution changed to private limited in 1999. PRPL is engaged in the business of dealing in electronics, electricals and other consumer durables.

Currently, PRPL has 16 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 2.6 lakh sq. ft. The company operates showrooms under the brand 'Harsha'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management along with established brand presence across Karnataka**

PRPL has established presence in the retail trading industry backed by more than three decades of extensive industry experience of promoters, Mr. Surya Prakash K, Mr. Ashok Kumar K, Mr. Harish K, Mr. Suresh M and Mr. Rajesh M. The company provides electronic and electrical appliances and other FMCG products. The 16 showrooms are operating under the well-known brand name 'Harsha'. The showrooms sell products of multi-brand like, LG Electronics India Private Limited, Samsung India Electronics Limited, Sony India Private Limited, Godrej And Boyce Mfg. Co. Limited, Panasonic India Private Limited and Haier Appliances (India) Private Limited, among others. The management tries to add one new store in every fiscal with regards to their expansion strategy. Hence, the biggest store of PRPL is opening in Udupi of around ~36000 sq. ft.

Acuite believes that PRPL will continue to benefit from its established market position as well as promoters' experience over the medium term backed by its increasing network of stores.

- **Moderate working capital cycle**

The operation of PRPL are moderate marked by GCA days of 102 in FY2019 as against 90 days in FY2018. The GCA days are dominated by inventory holding period of 84 days in FY2019 as against 72 days in FY2018. The debtor days stood at 3 in FY2019, as sales happen on cash basis. Further, the company enjoys credit period of average 85 days in FY2019, which moderates the reliance on working capital borrowings. Acuite believes that the efficient working capital management will be crucial to the PRPL in order to maintain a stable credit profile.

Weaknesses

- **Average financial risk profile**

The financial risk profile of PRPL is average marked by average net worth, moderate gearing and moderate debt protection metrics. The tangible net worth stood at Rs.19.42 crore as on 31 March, 2019 (includes quasi equity of Rs.6.00 crore) as against net worth of Rs.17.09 crore as on 31 March, 2018 (includes quasi equity of Rs.3.79 crore). The company has followed a moderately aggressive financial

policy in the past, the same is reflected through its peak gearing levels of 2.40 times as on March 31, 2018. This has improved to the current level of 2.30 times as on March 31, 2019. The debt of Rs.44.66 crore as on March 31, 2019 consists of working capital borrowings of Rs.26.14 crore, term loans of Rs.18.21 crore and unsecured loans from promoters of Rs.0.31 crore and. Total outside Liabilities/Tangible Net Worth (TOL/TNW) showed its peak levels at 5.95 times as on March 31, 2019. The gearing is expected to remain on the same level on back of the addition of new stores. Further, PRPL is establishing the biggest store in Udupi. The cost of project is Rs.6.14 crore and out of which, Rs.4.60 crore will be funded from term loan and remaining from promoter's contribution. The debt protection metrics are deteriorated marked by Interest Coverage Ratio (ICR) stood at 1.91 times for FY2019 as against 2.29 times for FY2018. This is due to the decline in operating margins of PRPL stood at 2.95 per cent in FY2019, as PRPL is operating in trading segment. NCA/TD stood moderate at 0.11 times for FY2019. Further, Debt to EBITDA stood at 4.34 times for FY2019.

• Competitive industry

The retail business has low entry barriers and highly competitive due to presence of 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.

Liquidity position: Adequate

PRPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5-6 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.3-4 crore over the same period. The cash accruals of the company are estimated to remain around Rs.5-6 crore during 2020-22, while its repayment obligation are estimated to be around Rs.4-5 crore over the same period. The working capital operations of PRPL are moderate marked by gross current asset (GCA) days of 102 in FY2019. The cash credit limit remains utilised at 87 percent during the last one year ended November, 2019. The company maintains unencumbered cash and bank balances of Rs.1.38 crore as on March 31, 2019. The current ratio stands at 1.10 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against repayments over the medium term.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Elongated working capital cycle along with further deterioration in financial risk profile

Material covenants

None

Outlook: Stable

Acuite believes that PRPL will maintain a 'Stable' financial risk profile over the medium term backed by its experienced management, and established brand presence in Karnataka. 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	348.22	345.77
PAT	Rs. Cr.	0.41	1.68
PAT Margin	(%)	0.12	0.49
Total Debt/Tangible Net Worth	Times	2.30	2.40
PBDIT/Interest	Times	1.91	2.29

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jan-2019	Cash Credit	Long Term	16.50	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	1.80	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	0.30	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	11.80	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	3.05	ACUITE BB+ / Stable (Assigned)
	Working Capital Term Loan	Long Term	4.17	ACUITE BB+ / Stable (Assigned)
	Proposed Term Loan	Long Term	7.38	ACUITE BB+ / Stable (Assigned)

***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	18.00 (Enhanced from Rs.16.50 crore)	ACUITE BB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.80	ACUITE BB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.05	ACUITE BB+/Stable (Reaffirmed)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	4.17	ACUITE BB+/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.88 (Revised from Rs.7.38 crore)	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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