

## Press Release

### Prakash Retail Private Limited

April 22, 2021

### Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs. 45.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+ / Stable)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) from '**ACUITE BB+**' (read as **ACUITE Double B Plus**) on the Rs. 45.00 Cr bank facilities of Prakash Retail Private Limited (PRPL). The outlook is '**Stable**'.

### Reason for revision of rating

The rating upgrade continues to reflect the established track record of Harsha brand, number of retail stores, stable revenue generation despite onset of pandemic and moderate average financial risk profile. The above mentioned rating strengths are partly offset by working capital intensive nature of operations and highly competitive nature of industry.

The operating income of the company improved TO Rs 355.45 Cr in FY20 against Rs 348.22 Cr. Further to this, the company reported operating income of Rs 227.84 Cr in 9M21 (Provisional) despite the closure of stores due to pandemic. The operating margins were stable at 3 per cent in FY20. Further, moderation in working capital cycle days marked by improvement in inventory days from 84 days in FY19 to 75 days in FY20 resulted in lower reliance on bank lines.

### About the company

Udupi based, Prakash Retail Private Limited (PRPL) was founded by five brothers, Mr. Surya Prakash K, Mr. Ashok Kumar, Mr. Harish M, Mr. Suresh M and Mr. Rajesh M, in 1985 as a partnership firm. Subsequently in 1999, it changed its constitution to private limited company. The company is engaged in the business of dealing in Electronic, Electrical and other consumer durable products. The company deals in more than 1000 varieties. PRPL has 15 stores spread across cities of Karnataka such as Udupi, Mangalore, Puttur, Kundapura, Shimoga, Hubli, Belgaum, Dharwad among others. The store area ranges between 7000-32000 sq. ft. The company operates showrooms under the brand / store name 'Harsha'. The company is also well known for after sale services with a dedicated and well trained staff and customer care executives. The services are available at respective outlets.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

#### • Experienced management and established brand presence

The promoter have established track record in 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 15 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. We believe 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. Acuité believes, the strong brand presence, number of showrooms and long track record of the company will benefit the company in maintaining

the market share it has in the region and will attract a lot of fresh and repeat customers.

• **Stable revenue despite the onset of pandemic**

The company over the past 3 years had stable operating performance with revenue in the range of Rs 345.77 Cr to Rs 355.45 Cr through FY20. The company achieved revenue of Rs 227.84 Cr as on 9M21 (Provisional) despite complete closure of the showrooms for the first two months of the financial year as a result of pandemic induced lockdown. The company also has started its e-commerce site which in FY21 (provisional) accounted for around 1 per cent of the total revenue for the year. Further to this, the company has been able to maintain a stable operating margin in the range of 2.95 per cent to 3.07 per cent over the past three years through FY20. Acuite expects the company to maintain the profitability considering the scale of operations and synergies associated with it.

• **Moderate financial risk profile**

The financial risk profile of PRPL is moderate marked by average net worth, high gearing and moderate debt protection metrics. The tangible net worth stood at Rs 20.28 Cr FY20 (including quasi equity of Rs 6.81 Cr) increasing marginally increasing from Rs 19.42 Cr in FY19. The gearing deteriorated to 2.05 times as on FYE20 (2.30 time as on FYE19). Coverage indicators improved marginally with DSCR improving to 1.13 times in FY20 (1.07 times in FY19) and Interest Coverage improved to 1.97 times in FY20 (1.91 times in FY19). Acuite expects the company to maintain stable financial risk profile considering the support from the promoters and the stable operating revenues.

**Weaknesses**

• **Working capital intensive nature of operations**

The operation of the business is highly capital intensive. The working capital facilities were almost fully utilized in past. Gross cash accrual days of 94 in FY20 as against 102 days in FY19 improving marginally in FY20. This improvement of gross cash accrual days was primarily due to improvement in inventory holding period which improved to 75 days in FY20 as considered to 84 days in FY19. Acuite believes that the efficient working capital management will be crucial to the PRPL in order to maintain its financial risk profile and profitability.

• **Highly competitive industry with large number of single brand, multi brand retailers and e-commerce players**

The company operates on thin margins and EBITDA margins over the past 3 years have been in the range of 2.95 to 3.07 per cent over past 3 years through FY20. The PAT margins were in the range of 0.10 to 0.49 per cent during the same period. The company faces tough competition from other dealers in the town and also faces tough competition from large e-commerce players. The company also has started its e-commerce site which in FY21 (provisional) accounted for around 1 per cent of the total revenue for the year. Further, the company has also tied up with Bajaj Finance to sell products through their website for customers opting for financing facility from them. Acuite believes, both online and offline presence will help the company to maintain its market share in the region.

**Liquidity Position: Adequate**

PRPL's liquidity position was adequate as observed from net cash accruals exceeding term loan payments, improvement in Gross Current Assets (GCA) days and support from promoters in the form of quasi equity. The company generated cash accruals of Rs.4.80 to 6.00 Cr over past 3 years through FY20, while debt repayments were in range of Rs.3.62-5.40 Cr over the same period. The cash accruals of the company are expected to improve marginally in future, primarily as a result of increase in sales from both offline and online platforms and the cash accruals to be sufficient to cover its repayment obligation. The working capital operations of PRPL are moderate marked by GCA days of 94 in FY20. Though the cash credit limit was almost fully utilized and the company had to rely on temporary overdrafts over past 6 months ended March 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term considering, the improvement in scale of operations and support from promoters.

**Rating Sensitivities**

- Improvement in operational and financial risk profile
- Stretch in working capital cycle

### 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	355.45	348.22
PAT	Rs. Cr.	0.37	0.41
PAT Margin	( percent)	0.10	0.12
Total Debt/Tangible Net Worth	Times	2.05	2.30
PBDIT/Interest	Times	1.97	1.91

### Any other information

Not Applicable

### Any Material Covenants

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jan-2020	Cash Credit	Long Term	1.80	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	11.80	ACUITE BB+ / Stable (Reaffirmed)
	Working Capital TermLoan	Long Term	4.17	ACUITE BB+ / Stable (Reaffirmed)
	Proposed Term Loan	Long Term	5.88	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	3.05	ACUITE BB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	0.30	ACUITE BB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BB+ / Stable (Reaffirmed)
10-Jan-2019	Term Loan	Long Term	11.8	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	16.5	ACUITE BB+ / Stable (Assigned)
	Working Capital TermLoan	Long Term	4.17	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	0.3	ACUITE BB+ / Stable (Assigned)

	Term Loan	Long Term	3.05	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	1.8	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50 (Reduced from Rs 1.80 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Term Loan	Not Available	Not Available	Not Available	14.83 (Enhanced from Rs 11.80 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Term Loan	Not Available	Not Available	Not Available	5.01 (Enhanced from Rs 3.05 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Working Capital Term Loan	Not Available	Not Available	Not Available	1.93 (Reduced from Rs 4.17 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.43 (Reduced from Rs 5.88 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/Stable)

**Contacts**

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Hariprasad J Senior Analyst - Rating Operations Tel: 022-49294046 <a href="mailto:Hariprasad.j@acuite.in">Hariprasad.j@acuite.in</a>	

**About Acuité Ratings & Research:**

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