

Press Release

Prakash Retail Private Limited

July 21, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of 'ACUITE BBB-' (read as ACUITE Triple B Minus) on the Rs. 45.00 Cr bank facilities of Prakash Retail Private Limited (PRPL). The outlook is 'Stable'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the stable operating performance through three year period ended FY2022(Prov.) partially contributed by PRPL's newly opened store in Udipi, along with stable Operating margins, and improved Coverage indicators. The company reported revenues close to Rs. 345 Cr. for FY2022 (Prov.) against Rs. 326 Cr. in FY2021 and Rs. 355.45 Cr. in FY2020. Further, the rating continues to draw comfort from PRPL's strong market position and its established chain of stores in the state of Karnataka under the brand name 'Harsha'. The company currently has over 16 stores spread across Bengaluru, Udipi, Belgaum, Mangalore, Dharwad, Hubli etc. The rating is however tempered by high gearing, working capital intensive nature of operations, and highly competitive nature of industry resulting in thin margins and moderate liquidity.

About the Company

Udipi 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 Sixteen retail outlet stores spread across cities of Karnataka such as Udipi, 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

Acuite 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 has 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 Sixteen 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.

Acuité believes, the strong brand presence, sufficient 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.

Moderate financial risk profile albeit marginal deterioration in the DSCR

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 21.95 Cr as on March 31, 2022 (Prov.) (includes quasi equity of Rs 5.25 Cr) increasing marginally from Rs 20.63 Cr as on March 31, 2021. The gearing increased to 2.28 times as on March 31, 2022 (Prov.) against 2.15 times as on March 31, 2021. Interest Coverage improved marginally at 2.33 times in FY2022 (Prov.) against 2.20 times in FY2021. However, DSCR deteriorated to 1.07 times in FY2022 (Prov.) against 2.20 times in FY2021 due to additional debt availed during FY2022.

Acuité 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

Given the industry in which PRPL operates, the company needs to maintain large number of inventory which makes its business highly capital intensive. The GCA days stood at 116 during FY2022(Prov.) against 93 in FY2021 and 94 in FY2020. The GCA days are high mainly due to higher inventory holding period. The inventory days during FY2022 (Prov.) stood at 93 owing to PRPL's newly opened store in Oct -21 for which stock had to be maintained against 79 days in FY2021 and 75 days in FY2020. Hence, this has resulted in an increase in the GCA days during FY2022. Going forward, some improvement in the GCA days is expected, but the same would be in the range 110-115 owing to additional stock maintenance. The company and the management being in the business for a long time enjoys an average credit period in the range of 70-90 days from its suppliers. Further, the working capital limits have been highly utilised at around 94 percent in the last six months ended May 2022. Acuite believes that the efficient working capital management will be crucial to the PRPL in order to maintain a stable credit profile.

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

The company operates on thin EBITDA margins over the past 3 years and the same have been in the range of 3.00 to 3.66 per cent over past 3 years through FY2020. The PAT margins although low, have been gradually increasing and stood in the range of 0.10 to 0.33 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 in an effort to curb the same, launched its own e-commerce website in FY2021. Further, the company has also tied up with Bajaj Finance to sell products through their website for customers opting for financing facility from them. However, the business from its E-commerce segment accounts only for around 1 per cent of the total revenues.

Rating Sensitivities

- Improvement in the gearing levels and overall financial risk profile
- Improvement in the liquidity profile

Material covenants

None

Liquidity Position

Adequate

PRPL's liquidity position is currently adequate to cover its obligations. The company generated cash accruals in the range of Rs. 5.25 Cr to Rs. 6.35 Cr. over past 3 years through FY2022, while debt repayments were in range of Rs. 3.5 Cr to Rs.5.63 Cr over the same period. The cash accruals are expected to remain adequate in the absence of any further additional debt and expected to remain at Rs. 7.52 Cr to Rs. 9.39 Cr. for the period FY2023 & FY2024 against its repayment obligations in the range Rs. 4.36 Cr to Rs. 5.30 Cr. in the same period. The working capital operations of PRPL are moderately high marked by gross current asset (GCA) days of 116 in FY2022. The cash credit limits have been almost fully utilized at 94 percent for last six months ended May 2022 as the company has to rely on temporary overdrafts due to lesser margins and accruals.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	345.61	326.58
PAT	Rs. Cr.	1.13	0.85
PAT Margin	(%)	0.33	0.26
Total Debt/Tangible Net Worth	Times	2.28	2.15
PBDIT/Interest	Times	2.33	2.20

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 Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Apr 2021	Term Loan	Long Term	14.83	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Working Capital Term Loan	Long Term	1.93	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Term Loan	Long Term	3.43	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	5.01	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	1.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	0.30	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
23 Jan 2020	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)
	Cash Credit	Long Term	1.80	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	11.80	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	4.17	ACUITE BB+ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	5.88	ACUITE BB+ Stable (Reaffirmed)
10 Jan 2019	Term Loan	Long Term	11.80	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	16.50	ACUITE BB+ Stable (Assigned)
	Working Capital Term Loan	Long Term	4.17	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	0.30	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	3.05	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	1.80	ACUITE BB+ Stable (Assigned)
	Proposed Term Loan	Long Term	7.38	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	14.35	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	11.50	Not Applicable	1.50	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	11.50	Not Applicable	0.30	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	03-02-2020	9.85	22-12-2027	14.83	ACUITE BBB- Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	04-02-2020	9.00	04-01-2026	3.91	ACUITE BBB- Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	2.50	ACUITE BBB- Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Working Capital Term Loan	Not available	9.00	Not available	0.72	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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