

Press Release

Pothys Private Limited

May 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 512.08 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to the Rs. 512.08 Cr bank facilities of POTHYS PRIVATE LIMITED (PPL). The outlook is '**Stable**'.

Pothys is a chain of textile showrooms in South India, founded in the year 1923 by Mr. Thiru K.V. Pothy Moopanar, based out of Chennai, Tamil Nadu. It originally started with selling silk sarees only. Later, it has expanded to selling all kinds of garments. The first showroom was set up at Srivilliputtur and with 16 showrooms all over Tamil Nadu, Puducherry, Bangalore (Karnataka) and in Trivandrum (Kerala). Pothys Group business is concentrated mostly in the region of Tamil Nadu, however, also spread across South India with showrooms at Trivandrum, Bangalore and Pondicherry. Hence, for streamlining the operational and financial convenience, the operations were split into two major divisional groups i.e. Chennai Group and Tirunelveli Group.

Pothys Private Limited (PPL) was later incorporated in the year 2014 which was formed to undertake the business and financial operations of the showrooms under the Chennai division.

Analytical Approach

Acuité has combined the business and financial risk profiles of Pothys Private Limited (PPL) and other group entities, Pothys - Tirunelveli (PT) and Pothys. Together they are referred to as the Pothys Group considering their common line of business, common management and significant operational and financial linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

• **Established brand presence, long standing track record and extensive experience of the promoters**

Pothys was established in 1923 (~90 years) by Mr. Thiru K.V. Pothy Moopanar under the name Pothy Moopanar to sell cotton sarees, dhotis and towels woven on his own loom. He started his own business with the aid of his son, Mr. K.V.P Sadayandi Moopanar, who had joined the business with him in the year 1955. In 1977, Mr. K.V.P Sadayandi Moopanar was able to establish the name and expand the outfit with a self – styled retail showroom at Srivilliputtur, re-christened the brand name as 'POTHYS'. Pothys Group, with close to five decades of leadership in retail business, is among the largest family owned enterprises in Tamil Nadu. Promoters have rich experience in the retail market for over four decades years and have wide reputation in entire corporate retail market segment. The brand Pothys is renowned for the variety of range of silk sarees, readymade garments, fashion wear, etc. for both ladies and gents. Pothys is among the popular names in retail selling in Tirunelveli and now across entire South India through its business in garments and into various other volume-driven and low-price sales of commodities that targets all segments of customers from low- and middle-income customers to high-income customers, with varied brand preferences. The group has a total of 16 showrooms with retail space of 20 lac sq. ft and with presence in all across South India. Pothy's revenue profile is fairly diverse, with about 70-80 percent from textile and remaining 20 percent from non-textile items. The company has strong procurement linkages owing to large scale of operations, and also commands pricing of cost-plus-nominal mark-up from manufacturers. With a long-standing brand presence of more than nine decades now, the group has established strong supplier relations with more than 5000 vendors from various regions for textile products, plus for all other products through C&F agents, stockists, etc. Its brand presence drives revenue growth; the group achieved a total turnover of Rs.2867 Cr in FY2019 against Rs.2575 Cr in FY2018. The revenue growth in FY2020 has remained dormant at Rs.2890 Cr (Prov) with no new showrooms being functional. With two new showrooms at Ernakulam and Chrompet, scheduled to open in FY2021, the revenue profile is expected to gain some comfort but however remain constrained due to operations being impacted by COVID-19 during Q1 of FY2021.

Acuité believes that Pothys Group will continue to benefit from its established market position, extensive

experience of the promoters over the medium term backed by its increasing network of stores however operations to partly remain impacted over the Q1FY2021 due to COVID-19.

- **Moderate financial risk profile**

The financial risk profile of the group is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing and TOL/TNW improved y-o-y and stood comfortable at 1.03 times and 2.07 times as on 31 March, 2019 as against 1.16 times and 2.53 times as on 31 March, 2018. The net worth stood healthy at Rs. 564 Cr as on 31 March, 2019 as against Rs. 459 Cr as on 31 March, 2018 (includes quasi equity of Rs. 107 Cr expected to be maintained in the business, deployed for the project of building showrooms). Of the total debt of Rs.579 Cr as on 31 March, 2019, long term loans stood at Rs.408 Cr and short-term debt at Rs.171 Cr. Pothys Group is undergoing a capital expenditure to bring up new showrooms in Chrompet (TN), Ernakulam (Kerala) and Padi (TN). The total estimated capital expenditure for the three showrooms are ~Rs.409 Cr which will be funded by Rs.247 Cr of bank loans and remaining Rs.162 Cr by way of promoters' funds or internal accruals. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 6.24 times and 0.33 times, respectively, in FY2019 as against 3.94 times and 0.16 times, respectively, in FY2019. The company reported net cash accruals (NCA) of Rs.193 Cr in FY2019. The cash accruals are further expected in the range of Rs. 200-250 Cr, against debt obligations of ~ Rs.85-95 Cr over the next two years.

Acuité believes that the financial risk profile of the group is expected to remain comfortable with regular accretions to reserves and infusion of funds by promoters treated as quasi capital during the debt funded capital expenditure.

- **Moderate working capital cycle**

The operations are moderately working capital intensive mainly on account of its inventory cycle at 68 days in FY2019 as compared to 50 days in FY2018. The GCA days stood at 91 days as on March, 2019 against 101 days as on March, 2018. Since the company is operating retail showrooms, it maintains optimal inventory across stores in terms of quantity and designs at the stores. As majority of the transactions are on immediate payment, debtors' cycle is negligible. Moderate inventory holding policy has led to lesser dependence on bank lines resulting in utilization at about 65 per cent for the last 11 months through February 2020. The Group has an unutilized short-term debt balance of ~Rs.30 Cr and additional WCDL funding of Rs.20 Cr for the incremental working capital requirements. Acuité believes that, with the nature of business, operations are expected to be moderately working capital intensive over the medium term.

Weaknesses

- **Exposure to risk associated with its on-going capital expenditure for the new showrooms**

The project of about Rs.409 Cr is proposed to be funded at a debt-to-equity of 2:1. The Group has received a bank loan sanction of Rs.195 Cr for the Ernakulam and Chrompet project and the remaining amount has also been in-principally sanctioned by lenders, thereby leading to low funding risk. Moreover, promoters being high net worth individuals would support the business in terms of any exigencies. Group is undertaking a capital expenditure to construct 3 showrooms at Chrompet, Ernakulam and Padi. Total construction cost is estimated at about Rs.409 Cr (including land that has been already purchased). The proposed project is expected to be completed within a period of 18-24 months; the capex at the two showrooms at Chrompet and Ernakulam is expected to be completed by Oct-2020 with CoD by ~Jan-2021; however, the Padi project is currently at its nascent stage of operations with just land purchased which results in high implementation risks. As on date, all the necessary approvals have been obtained. Acuité believes that timely project implementation are key rating sensitivity factors over the medium term, though the management is confident enough to part operationalize the project by around FY2021.

- **Geographical concentration risk**

The group faces high store and geographic concentration risk. The group's total revenue is generated majorly from top 7 stores contributing to ~80 per cent of total revenue. The top 7 stores, which contribute 80 per cent, are located in Tamil Nadu and all stores put together in Tamil Nadu contribute to around 77 per cent of total sales. Currently, the group is operating 16 stores of which 14 stores are in Tamil Nadu, 1 store each in Karnataka and Kerala. Acuité believes that the high store concentration renders the revenue growth and profitability susceptible to overall market conditions in the Tamil Nadu region.

- **Exposure to intense competition in the retailing industry**

Pothys Group currently operates with 16 showrooms with 3 other showrooms coming up on the high streets of Chennai and are also spread in various other South Indian states. However, these places are also flooded with small and large players in the same line of business. It faces intense competition in terms of product

quality and pricing, which leads to continuous pricing pressure, affecting its margins. The entry of branded textile players in Chennai is expected to intensify the competitive landscape for existing players like Pothys Group. The non-textile segment also faces stiff competition from local players which would limit the company's ability to increase revenues significantly while maintaining margins. The credit profile of the company, over the medium term, will continue to be impacted by the geographical concentration of its stores in and around Chennai coupled with increasing competition from other players.

Rating Sensitivities

- Ability to sustain the operating margins with improvement in its topline
- Higher than expected debt-funded capital expenditure leading to deterioration in the financial risk profile

Material Covenants

- Unsecured loans and advances availed from promoters/partners/relatives shall not be repaid during the tenure of facilities

Liquidity: Adequate

Pothys Group has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. It reported cash accruals of Rs.192 Cr for FY2019. The cash accruals of the group are estimated to remain at around Rs.200-250 Cr, against repayment obligations of Rs.85-95 Cr over the medium term. The group is planning to open two stores by the end of FY2021 and planning to complete the construction of the other showroom which entail a capex of about ~Rs.73 Cr crores. Further, working capital cycle is moderate as reflected in GCA at 91 days in FY2019 (101 days in FY2018). Bank limits are utilised at 65 per cent for 11 months through February 2020. In light of COVID-19, the group has adequate comfort from the lenders on account of sufficient moratorium period and repayment time. Beyond that, in case of any exigencies, the management will support the business. The current ratio stood weak at 0.89 times as on March 31, 2019 which is expected to improve over the medium term. Unencumbered cash and bank balance stood at Rs. 34 Cr as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes Pothys Group's business risk profile will remain 'Stable' over the medium term from the extensive experience of the promoters and the established brand name "Pothys". The outlook may be revised to 'Positive' in case of significant improvement in the revenues while balancing the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of higher than expected debt-funded capital expenditure leading to decline in its financial risk profile and therefore eroding the liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2,867.62	2,575.15
PAT	Rs. Cr.	160.13	59.89
PAT Margin	(%)	5.58	2.33
Total Debt/Tangible Net Worth	Times	1.03	1.16
PBDIT/Interest	Times	6.24	3.94

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

None

Any other information

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 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	89.50	ACUITE A-/Stable
Term Loans	21-July-2017	Not Applicable	31-July-2028	269.58	ACUITE A-/Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	153.00	ACUITE A-/Stable

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About Acuité Ratings & Research:

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