

Press Release

Pothys

August 17, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.20.36 crore
Long Term Rating	ACUITE A-/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.20.36 crore bank facilities of Pothys. The outlook is '**Stable**'.

About the rated entity

Pothys is a chain of textile showrooms in South India, founded in the year 1923 by late Mr. Thiru K.V. Pothy Moopanar, based out of Srivilliputtur, Tamil Nadu. It originally started with selling of cotton sarees, dhotis and silk sarees, later it expanded to selling all kinds of garments, home needs, super market and electronics. The first showroom was set up at Srivilliputtur and with 17 showrooms all over Tamil Nadu, Puducherry, Bangalore (Karnataka) and in Trivandrum & Ernakulum (Kerala). Pothys Group business is concentrated mostly in the region of Tamil Nadu, however, also spread across South India. 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 group had transferred its business from partnership firm to Pothys Pvt Limited (Chennai group) during FY14 and now group had transferred its business of Tirunelveli firm to new formed company Pothys Retail Private Limited (Tirunelveli Group).

Analytical Approach

Acuité has consolidated 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 (~98 years) by late 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, renamed the brand name as 'POTHYS'. Pothys Group, is among the largest family owned enterprises in Tamil Nadu. Promoters have rich experience in the retail market 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. and has further diversified to electronics and day-to-day products as well. Pothys 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 18 showrooms and with presence in all across South India. Pothy's revenue profile is fairly diverse, with about 80 percent from textile and remaining 20 percent from non- textile items. The group 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 vendors from various regions for textile products, plus for all other products through C&F agents, stockists, etc. Although, the group achieved a total turnover of Rs.1463.81Cr in FY2021 (prov.) against Rs.2848.56 Cr in FY2020, its brand presence drives revenue growth.

The revenue declined in FY2021 due to covid-19 induced situation. Also, sales per square feet dipped to Rs.12,632.00 in FY2021 as compared to Rs.21,936.00 in FY2020. The revenues are expected to increase in FY22 on account of addition of two new stores that are now operational along with other existing stores. Acuité believes that Pothys Group will continue to benefit from its established market position, extensive experience of the promoters and longstanding relationship with its suppliers over the medium term backed by its increasing network of stores at various locations.

- **Resourceful promoters group**

The strong backing of an experienced and resourceful promoters with experienced teams operating the stores provide sound support to the group. Moreover, promoter's funds which could be available for meeting any shortfall in debt servicing, fund new projects, and meet cash flow shortfalls in nascent stages, further gives financial flexibility to group.

- **Moderate financial risk profile**

The financial risk profile of group stood moderate marked by modest net worth, comfortable gearing and coverage indicators. The tangible net worth of the group stood at Rs.1041.11 crore as on March 31, 2021 (prov.) as against Rs.960.38 crore as on March 31, 2020. The gearing and TOL/TNW stood at 0.73 times and 1.12 times as on March 31, 2021 (prov.), similar against 0.69 times and 1.10 times as on March 31, 2020. The total debt as on March 31, 2021 (prov.) comprises of long term loan Rs.499.48 crore and short term debt comprising of bank borrowings and loans to group concerns of Rs.172.40 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood adequate at 4.64 times and 0.19 times, respectively, for FY2021 (prov.) as against 8.93 times and 0.41 times, respectively, in FY2020.

Two store located at Ernakulam and Chrompet which became operational at the end FY21 would generate additional cash flows from FY22 onwards. The group also has large capex plans for which debt is yet to be tied up fully. Acuité believes that the financial risk profile of the group is expected to remain moderate 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 high inventory cycle at 152 days in FY2021 (prov.) as compared to 64 days in FY2020, on account of pandemic situation. The GCA days stood at 173 days as on March 31, 2021 (prov.) against 77 days as on March 31, 2020. Since the group 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 low. Bank lines utilization remains moderate at about 49% during the last 6 months ended May 2021. 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 group has 3 upcoming stores with a project cost of Rs.392.82 crore, likely to be funded by term loans from banks and promoter funding. The promoters being high net worth individuals would support the business in terms of any exigencies. Also, the group has received an in-principal sanction for the

term loans for two upcoming stores thus resulting in moderate funding risk. However, due to pandemic the project execution has been delayed from earlier estimated time, thus impacting the cash flow generation. The proposed project is now expected to be completed by FY2023 than earlier FY2021. Acuité believes timely project implementation while sustaining the financial risk profile remains a key sensitivity factor.

- **Geographical concentration risk**

The Group's total revenue is generated majorly from stores in Tamil Nadu which contributes 69% of total revenue, 15% from Kerala, 8% from Pondicherry and 8% from Karnataka. This proposition will change due to opening of 2 stores, each one in Tamil Nadu and Kerala. Currently group is operating 14 stores in Tamil Nadu including latest store opening in Chennai, 2 stores in Kerala including store opened recently in Ernakulam and each one store in Pondicherry & Karnataka. In terms of showroom area Tamil Nadu holds 59%, Kerala holds 27%, Pondicherry holds 7% and Karnataka holds 7%. Acuité believes that large format stores concentration renders the revenue growth and profitability susceptible to overall market conditions in the Tamil Nadu and Kerala region.

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

Pothys Group currently operates with 18 showrooms with 3 other new showrooms coming up on the high streets of Chennai and other cities in Tamil Nadu. However, these places are also flooded with small and large players in the same line of business. 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 group, 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**

- Improving scale of operations while maintaining profitability.
- Implementation of capex while sustaining financial risk profile.

- **Material Covenants**

None

- **Liquidity Position: Adequate**

Pothys Group has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. It reported cash accruals of Rs.142.51 crore for FY2021 (prov.). The cash accruals of the group are estimated to remain at around Rs.220-Rs.350 crore, against repayment obligations of Rs.112-Rs.141 crore over the medium term. The group is planning to open three stores by the end of FY2023. Bank limits are utilised at about 49 per cent for 6 months through May 2021. 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 moderate at 1.30 times as on March 31, 2021 (prov.). Unencumbered cash and bank balance stood at Rs. 42.31 crore as on March 31, 2021 (prov.). 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	FY21 (prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	1463.81	2860.90
PAT	Rs. Cr.	100.42	238.43
PAT Margin	(%)	6.86	8.33
Total Debt/Tangible Net Worth	Times	0.73	0.69
PBDIT/Interest	Times	4.64	8.93

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-61.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Aug-2021	Term Loan	Long Term	17.86	ACUITE A-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.50	ACUITE A-/Stable (Reaffirmed)
07-May-2020	Term Loan	Long Term	20.36	ACUITE A-/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
ICICI Bank Ltd	Term Loan	October 2017	9.00	November 2024	18.69	ACUITE A-/Stable (Reaffirmed)
-	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.67	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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