

Press Release

Pothys

April 08, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.36	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	20.36	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for Rating Reaffirmation

The rating is reaffirmed considering the operating performance demonstrated by the Group in 11MFY2022, which is in line with Acuite's expectations. The Group had generated an operating income of Rs.2122 Cr in 9MFY2022 which improved to Rs. 2691 Cr in 11MFY2022. The operating income in FY2021 stood at Rs.1763 Cr as against Rs.3224 Cr in FY2020. The sharp decline was mainly due to Covid-19 induced lockdown and restricted reopening of the economy thereafter. The financial risk profile of the Group continues to remain moderate marked by moderate net-worth, comfortable gearing and coverage indicators. The rating continues to remain constrained by the execution risk pertaining to on-going capital expenditure for the new showrooms and regional geographical presence of the Group. Acuite expects the Group to reach its pre-covid levels in terms of its business performance over the medium term supported by additional revenues earned from two recently opened showrooms in Ernakulam and Chrompet.

About Company

Incorporated in 1986, Pothys is a Chennai based partnership firm and part of the 'Pothys' Group of Companies. The Firm holds assets and investments of the entire Chennai division of Pothys Group.

About the Group

'Pothys' is a chain of textile showrooms in South India, founded in the year 1923 by Mr. Thiru K.V. Pothu 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 18 showrooms all over Tamil Nadu, Puducherry, Bangalore (Karnataka) and in Trivandrum and Ernakulam (Kerala). Pothys Group business is concentrated mostly in the region of Tamil Nadu, however, also spread across South India with showrooms at Trivandrum, Ernakulam, 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 such that the assets and investments of each of the divisions are held under their respective partnership firms i.e. M/s Pothys for Chennai division and M/s Pothys – Tirunelveli for Tirunelveli division.

The business and operations for the Chennai division is managed under Pothys Private Limited since October, 2014 while the business and operations of the Tirunelveli division earlier managed by the partnership firm, have been transferred to Pothys Retail Private Limited w.e.f April, 2021.

The Group also has its in-house brands for the men's apparel segment. The brands are operated under group company Otto Clothing Private Limited (OCPL). Incorporated in 2004, OCPL is the manufacturing arm of the Pothys group and manages the Otto' Brand, 'Minister White' Brand and 'Clarke Gable' Brand of the Group.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Pothys Private Limited (PPL), Pothys - Tirunelveli (PT), Pothys and Otto Clothing Private Limited. Together they are referred to as the Pothys Group considering their common line of business, common management and significant operational and financial linkages.

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. Pothu Mooppanar under the name Pothu Mooppanar 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 Mooppanar, who had joined the business with him in the year 1955. In 1977, Mr. K.V.P Sadayandi Mooppanar 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. Pothys'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 markup 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.1763 Cr in FY2021 against Rs.3224 Cr in FY2020, its brand presence drives revenue growth.

The revenue declined in FY2021 due to covid-19 induced situation. The group has demonstrated robust recovery in FY2022 as it generated revenue of Rs.2122 Cr in 9MFY2022 which improved to Rs. 2691 Cr in 11MFY2022. With addition of two new stores that are now operational along with other existing stores, the revenues of the Group are expected to reach the pre-covid levels over the medium term.

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.1117 Cr as on March 31, 2021 as against Rs.1037 Cr as on March 31, 2020. The gearing and TOL/TNW stood at 0.88 times and 1.25 times as on March 31, 2021, similar against 0.87 times and 1.27 times as on March 31, 2020. The total debt as on March 31, 2021 standing at Rs. 981 Cr comprises of long term loan Rs.653 Cr, lease liability of Rs. 87 Cr and short term debt of Rs.240 Cr. The unsecured loan from promoters and relatives which stood at Rs. 143 Cr as on March 31, 2021 is considered as quasi equity. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 3.47 times and 0.18 times, respectively, for FY2021 as against 6.06 times and 0.36 times, respectively, in FY2020.

Acuité believes that the financial risk profile of the group is expected to remain moderate with regular accretions to reserves.

> Moderate working capital cycle

The operations are moderately working capital intensive mainly on account of its high inventory cycle at 162 days in FY2021 as compared to 73 days in FY2020, on account of pandemic situation. The GCA days stood at 210 days as on March 31, 2021 as against 104 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. The debtor days stood at 34 days as on March 31, 2021 as against 22 days as on March 31, 2020. Bank lines utilization remains ranged between 75-80 percent during the last eleven months ended February 2022.

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 in Padi, Kanchipuram and Tirupur. These projects are being undertaken in Pothys Group and KVPS Properties and Developers Private Limited. The total project cost was earlier estimated to be Rs.463 Cr to be funded through bank debt of Rs. 289 Cr. and promoter contribution of 174 Cr. The group had been sanctioned term loan for one of the three upcoming stores and received in principal sanction for the other two stores but the final financial closure was yet to be achieved. The estimated project cost has now increased to Rs. 499 Cr as on March 2022. This escalated cost is expected to be primarily funded by additional debt. The project completion date which was initially estimated to be in FY2023, was extended to FY2024, is once again revised to H1FY2025.

Acuité believes timely project implementation while sustaining the financial risk profile remains a key sensitivity factor.

> Geographical concentration risk

The Group's total revenue from 'Pothys' stores 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 Ernakulum and each one store

in Pondicherry & Karnataka. In terms of 'Pothys' 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**

The Group under the store name 'Pothys' 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 nontextile 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.

ESG Factors Relevant for Rating

For the apparel manufacturing and retail garment industry, water is a key input and due to high level of water pollution, both water efficiency and pollution are key material issues for the industry. Material efficiency and establishing a supply chain which takes into consideration environmental factors is significant. Overall environmental management, green products and energy efficiency are few other important key issues. On the social front, the safety of employees is the foremost material issue for the companies in the industry, so as to provide for safe working conditions for the employees. Issues such as board independence, compensation and diversity are relevant to the industry on the governance front.

Pothys Group is a family run entity with strong presence in the South Indian retail garment industry. 'Pothys' is one of the Brands associated with the "Myntra for Earth" store. 'Myntra for Earth' store is a dedicated online platform for sustainable products which focuses on handloom and handcrafted, organic, natural-dyed, recyclable and eco-friendly products. This association underscores the Group's awareness towards its environmental responsibilities. Also the Group takes measures to ensure the safety and well being of its employees. Post introduction of Covid-19 vaccines in the country, the Group ensured that all its employees are vaccinated and also incorporated various safety measure in its showrooms to ensure the safety of its employees and customers.

Rating Sensitivities

- > Substantial and sustained improvement in scale of operations in comparison to the prepandemic performance demonstrated by the company.
- > Sustenance of working capital intensity measured through Gross Current Asset days within 150 days of sales.
- > Sustenance of the financial risk profile, particularly the liquidity position.
- > Maintenance of Total Outside Liabilities to Tangible Networth ratio within 1.50 times over the medium term.
- > Timely completion of ongoing capex projects

Material Covenants

None

Liquidity Position: Adequate

The Group has adequate liquidity marked by comfortable net cash accruals and moderate working capital management. It reported cash accruals of Rs.175 Cr for FY2021. The cash accruals of the group are estimated to remain at around Rs.250 -Rs.320 crore, against repayment obligations of Rs.150-Rs.170 Cr during the period FY22-23. The group is planning to open three stores by H1FY2025. Bank limits are utilised in the range of 75- 80 percent for eleven

months through February, 2022. The current ratio stood moderate at 1.31 times as on March 31, 2021. Unencumbered cash and bank balance stood at Rs.58.59 Cr as on March 31, 2021. 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1762.60	3224.11
PAT	Rs. Cr.	108.21	266.84
PAT Margin	(%)	6.14	8.28
Total Debt/Tangible Net Worth	Times	0.88	0.87
PBDIT/Interest	Times	3.47	6.06

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Jan 2022	Term Loan	Long Term	18.69	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.67	ACUITE A- Stable (Reaffirmed)
20 Dec 2021	Term Loan	Long Term	18.69	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.67	ACUITE A- Stable (Reaffirmed)
17 Aug 2021	Proposed Bank Facility	Long Term	1.67	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.69	ACUITE A- Stable (Reaffirmed)
05 Aug 2021	Proposed Bank Facility	Long Term	2.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	17.86	ACUITE A- Stable (Reaffirmed)
07 May 2020	Term Loan	Long Term	20.36	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.67	ACUITE A- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	03-10-2017	9.00	30-11-2024	18.69	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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