

Press Release

Chandana Brothers Shopping Mall Private Limited

June 28, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 325.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE A-**' (**read as ACUITE A 'Minus'**) on the Rs.325.00 crore bank facilities of Chandana Brothers Shopping Mall Private Limited (CBSMPL). The outlook is '**Stable**'.

About the Company

Established in 1984 and based in Visakhapatnam (Andhra Pradesh), Chandana Brothers Shopping Mall Private Limited (CBSMPL) is a part of Chandana Brothers group. It was set up as partnership firm 'Chandana Brothers Shopping Mall' by Mr. Chandana Mohan Rao, Mr. Mavuri Venkata Ramana, Ms. Mavuri Venkata Padmavathi and other family members. Currently, the family members under the group are conducting the business with the same brand name of 'Chandana Brothers', but operates independently based on the territory. In March 2014, the firm changed its constitution to private limited company and currently is promoted by Mr. Chandana Mohan Rao, Mr. Mavuri Venkata Ramana, Ms. Mavuri Venkata Padmavathi, Ms. Chandana Subba Laxmi and other family members. CBSMPL operates various stores, showrooms & malls under the brand name of 'Chandana Brothers', 'CMR' and 'Kanchi Kamakshi' and is engaged in retailing of textiles apparels, readymade garments, various types of jewellery in the state of Andhra Pradesh.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Chandana Brothers Shopping Mall Private Limited (CBSMPL) to arrive at this rating.

Key Rating Drivers

Strengths

- **Promoters extensive experience in retail industry; established track record of operations in Andhra Pradesh**

CBSMPL's directors, Mr. Chandana Mohan Rao, Mr. Mavuri Venkata Ramana, Ms. Mavuri Venkata Padmavathi has been part of the day-to-day operations of the group since its inception in 1984. The business of retailing was initially started by Mr. Chandana Mohan Rao (also known as CMR) around 50 years ago and later the family members joined in the business. Chandana Brothers, with nearly four decades of leadership in retail business, is among the top retail enterprises in the state of Andhra Pradesh. The senior management team is ably supported by a strong line of mid-level managers. Mr. Mavuri Mohan Balaji, son of Mr. Mavuri Venkata Ramana, is the third generation of the family line and has joined the family business as the next successor. The extensive experience of the promoters is reflected through the established relationship with its suppliers. On the back of the presence of wide range of products targeting customers of different income category through separate brands (Chandana Brothers, CMR and Kanchi Kamakshi) and intensive promotions and advertisement for brand awareness, the standalone revenues have seen a compound annual growth rate (CAGR) of about 12.84 per cent between FY2018 to FY2020. The operating income has improved to Rs.1420.58 Cr. in FY2020 from Rs.1346.84 Cr. in FY2019 on account improvement in realizations and addition of two new stores at Eluru and Anakapalli. Further, the company has achieved revenues of around Rs.1288.08 Cr. for FY2021(Prov), despite the slowdown in retail industry on account of the pandemic. Acuité believes that CBSMPL will continue to derive benefits from its experienced management and established presence and track record of operations over the long term period.

• Widespread presence across A.P; New venture into multi-complex building development

CBSMPL operates various stores, showrooms & malls under the brand name of 'Chandana Brothers', 'CMR' and 'Kanchi Kamakshi'. CBSMPL has its presence in the Visakhapatnam, Rajahmundry, Kakinada, Gopalapatnam, Vizianagaram, Srikakulam, Guntur, Tirupathi, Eluru, Anakapalli and Gajuwaka region of Andhra Pradesh. CBSMPL has 17 operational stores and showrooms for retail trading of textiles, readymade garments, various kinds of jewellery and precious articles. The 'Chandana Brothers' and 'CMR' brand is established to target the customer base consisting of middle and lower middle income category individuals, whereas 'Kanchi Kamakshi' is established to target the customer base consisting of middle and upper middle income category individuals.

The company also has ventured into the multi-complex building development business by constructing a multi-complex at Gajuwaka with build-up area of around 75,000 Sq.ft to have a stable rental income from tenants with reputed names such as Inox Leisure Limited and KFC, among others. Besides, CBSMPL has bought land at Rajahmundry and Kakinada for its plan to develop similar multi-complex based buildings. The company also has established 'CMR Shopping Mall' in Bhimavaram with built-up area of around 35,000 Sq.ft and expected to start operations in August 2021, post relaxation of covid restriction norms. Acuité believes that the commencement of additional showroom and multi-complex building, along with capex underway for further development of multi-complex building will aid in strengthening of revenue and financial risk profile of the company.

• Above-average financial risk profile

CBSMPL financial risk profile is above average, marked by a healthy networth, moderate gearing and above average debt protection metrics. The EBITDA margins of the company improved to 5.72 percent in FY2020 against 4.80 percent in FY2019 on account of significant reduction in advertisement and promotional cost. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.52 times and 0.83 times respectively in FY2020 as against 2.40 and 1.44 times respectively in the previous year. The significant deterioration in the DSCR ratio is on account of repayment obligation of short term intercorporate deposit by promoters group of amount Rs.26.94 Cr. in FY2020.

The net worth of the company stood at Rs.189.97 Cr. as on 31 March, 2020 as against Rs.122.54 Cr. as on 31 March, 2019. This improvement is on the account of healthy accretion to reserves and result of equity infusion by the promoters in FY2020. There has been an increase of Rs.15.00 Cr. in authorized share capital and an issue of 79,15,453 equity shares of Rs.10/- each, fully paid up amounting to Rs.7.92 Cr. with additional premium of Rs.33.64 Cr. The gearing level (debt-equity) has improved and stood at 1.43 times as on 31 March, 2020 as against 2.63 times as on 31 March, 2019, the improvement is on the account of repayment of long term borrowings and equity infusion by the promoters group. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 2.50 times as on 31 March, 2020 against 4.38 times in previous year. Improvement in TOL/TNW is on account of decline in long term borrowings on account of timely repayment and infusion of equity ensuring healthy networth of the company.

The total debt of Rs.272.33 Cr. as on 31 March, 2020 consist of long-term debt of Rs.26.32 Cr., short term debt of Rs.227.00 Cr. and maturing portion of long term borrowings of Rs.19.01 Cr. NCA/TD (Net cash accruals to total debt) has improved to 0.13 times in FY2020 as against 0.09 times in FY2019. Acuité expects the financial risk profile to remain above-average over the medium to long term period on account of healthy capital structure and stable operations of the company.

• Low customer and supplier concentration risk in revenue profile; Diversified product offerings

CBSMPL have been successfully able to increase its geographical coverage by establishing various stores across the state of Andhra Pradesh. None of the single store out of the 17 operational stores of CBSMPL has contributed more than 20 percent to the total sales of the company. The prominent stores in terms of revenue contribution are located at Visakhapatnam, Gajuwaka, Gopalapatnam and Vizianagaram. The current suppliers are associated with the operations of the company for more than 5 years now. None of the single supplier of CBSMPL contributed more than 20 percent to the total purchases of the company. The company has wide variety of products offerings covering Men's wear, Ladies wear, Kids wear in textiles segment and Bangles, Bracelets, Earrings, Enamel, Pendants, Rings and Wedding Bands in jewellery segment. CBSMPL's jewellery division is the major contributor towards the total sales realized by the company over the last 4 financial years. The jewellery division has been marginally growing over the past financial years and has contributed to 72.76 per cent of the total sales in FY2021 (Prov) compared to 67.33 per cent of the total sales in FY2018. Further, gold and gold jewellery has contributed to 92.88 per cent of total jewellery sales in FY2021 against 91.75 per cent in the previous year. Acuité believes that CBSMPL has low risk towards its revenue profile in terms of geographical, customer and supplier concentration and will benefit from its diversified product offerings over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

CBSMPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 124 days as on March 31, 2020. As the company is into retail business of textile garments and jewellery it maintains an inventory of around 130-140 days consisting of the inventory held at various stores and presence of holding high inventory of gold for its jewellery business. On the other hand, the company gets a limited credit period of around 60 days from its suppliers, leading to higher reliance on working capital limits. CBSMPL's working capital limits over the last twelve months period through March 31, 2021 was utilized at an average of 95 per cent, while the peak utilization was high at around 100 per cent during the same period. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company due to the nature of the retail industry and presence of inventory held at various stores.

- **Impact of Covid-19 Pandemic on the business**

In the wake of the COVID-19 pandemic, many industries and sectors globally witnessed significant downfall. The retail sector was also impacted on account of lockdown restrictions imposed by the respective state governments to curb the spread of the disease and tackle the health crisis at hand. CBSMPL on average year-on-year (YoY) in the past financial years register around 25 percent of total sales in the first quarter of the particular financial year, but on account of imposition of lockdown by the government in the initial months of FY2021, only 9.04 per cent of total sales of FY2021 was realized in the first quarter. CBSMPL has availed CECL, GECL and ECLGS loans from multiple banking institutions as part of the covid relief measures of amount Rs.68.56 Cr. Acuité expects that the company's business profile to have an adverse impact in Q1 FY2022 on account of similar lockdown restrictions imposed by the respective state government to curb the second wave of covid-19 pandemic.

- **Presence of intense competition in the sector; impact of change in regulations; Susceptibility of operating margins to volatility in commodity prices.**

The Indian retail sector is subjected to intense competition on account of presence of several organized as well unorganized players in the industry. The company faces intense competition from R.S. Brothers Group, Kalamandir Group, and J.C. Brothers Group etc. in the southern region of the country. Apart from this, regulatory intervention such as compulsory hallmarking, requirement of permanent account number (PAN) etc. change in regulation of gold related savings schemes coupled with changing consumer preferences etc. impacts the overall operating performance of the sector. Further, sudden change in gold prices also impact the gold demand. CBSMPL's operating margin improved to 7.14 per cent in FY2021 (Prov) against 5.72 per cent in FY2020, despite the slowdown in retail industry on account of covid-19 pandemic. The improvement in operating metrics are subjected to the improvement in realizations due to the rise in gold prices, significant reduction in employee cost and other operating overheads. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, any changes in regulations, changes in the commodity's price and has uncertainty over the sustainability of the operating margins in medium to long term period.

Liquidity Position: Adequate

CBSMPL's liquidity is adequate marked by healthy generation of net cash accruals in FY2020 to its maturing debt obligations and low level of unencumbered cash and bank balance. The company has generated cash accruals in the range of Rs.22.04-35.80 Cr. during last three years ending FY2020 as against its long term debt obligations of Rs.11.83-19.20 Cr. for the same period. The company's working capital management is intensive in nature as evident from Gross Current Asset (GCA) of 124 days as on March, 2020 as compared to 132 days as on March, 2019, majorly on account of holding huge portion of gold in inventory for its jewellery business. The current ratio stood at 1.09 times as on March 31, 2020 and the fund based limit remains utilised at 95 per cent over the 12 months ended March, 2021. The company has maintained unencumbered cash and bank balances of Rs.1.10 Cr. as on March 31, 2020. Acuité believes that the liquidity of the company is likely to improve over the medium to long term on account of capital expenditure underway for addition of new stores and development of multi-complex buildings and expected relaxation of lockdown restrictions imposed due to the covid-19 pandemic. The company is expected to generate NCA in range of Rs.34.66-41.76 Cr. against maturing debt obligations in range of Rs.7.06-19.01 Cr. over the medium term.

Rating Sensitivities

Positive

- Improvement in terms of sales volume and maintenance of operating margins.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuité believes that CBSMPL will continue to benefit over the medium to long term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of sustainable improvement in sales volume of the textile garments and jewellery, increase in regional coverage and significant reduction in operating expenses leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case CBSMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,420.58	1,346.84
PAT	Rs. Cr.	25.90	16.95
PAT Margin	(%)	1.82	1.26
Total Debt/Tangible Net Worth	Times	1.43	2.63
PBDIT/Interest	Times	2.52	2.40

For the period 12MFY2021 (Prov), CBSMPL, has reported a profit after tax (PAT) of Rs.30.76 Cr. on total operating income of Rs.1288.08 Cr.

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

None

Any other information

None

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>
- Entities in Trading Sector - <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 (Upto last 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	165.00	ACUITE A-/Stable (Assigned)
Term Loan	06-02-2019	8.95	10-05-2027	14.97	ACUITE A-/Stable (Assigned)
Term Loan	26-12-2019	9.20	17-04-2022	2.86	ACUITE A-/Stable (Assigned)
Working Capital Term Loan	29-01-2021	6.75	07-02-2026	4.27	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A-/Stable (Assigned)
Working Capital Term Loan	23-02-2021	6.75	07-03-2026	47.80	ACUITE A-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.10	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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