

January 02, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	13.00	SMERA BB+/Stable

SMERA has assigned a rating of '**SMERA BB+/Stable**' (**read as SMERA double B plus**) to the Rs.13.00 crore long-term bank facilities of Sabari Distribution Pvt. Ltd. (SDPL). The outlook is '**Stable**'. The rating is constrained by the company's weak financial risk profile and low net profit margins. However, the rating derives comfort from the company's experienced management and established relationship with Procter & Gamble (P&G). The rating also factors in the company's efficient working capital management and healthy near-term revenue visibility.

SDPL, incorporated in 1999, is a sole distributor for P&G and Gillette in Kerala.

SDPL has a weak financial risk profile with modest net worth of Rs.4.24 crore and high leverage at 3.3 times as on March 31, 2013. Moreover, SDPL's leverage is expected to remain high due to incremental working capital requirements on account of expected increase in scale of operations. SDPL has moderate interest coverage ratio of 2.4 times in FY2012-13.

The company is involved into trading business, with low operating margins. The company had margins 0.75% in 2012-13. The company however has been able to maintain its operating margins at stable levels, with the margins ranging from 0.7 to 1.0% over the past five years. The company had moderate RoCE of 15.6% in 2012-13, and it's expected to remain in the same range over the medium term.

SDPL benefits from its experienced management. Mr. P. K. Rajan, Managing Director of SDPL, has over two decades of experience with P&G.

SDPL has efficient working capital management, with gross current assets (GCA) in the range of 21-27 days over the past three years. The company follows efficient inventory management practices under the guidance of P&G. SDPL's strong supply chain management practices entail minimum inventory at each level, while still ensuring timely delivery of the goods to customers, which comprise of a vast network of retailers and wholesalers in Kerala.

SDPL has about 265 direct selling executives. The company is focused on ensuring timely order generation and collection from debtors. SDPL's inventory levels and debtor levels are low at around 7-9 days and 11-14 days, respectively during the past three years.

The company's capital requirements are partially funded through bank borrowings. SDPL's average utilisation of bank limit is~80 per cent during May 2013 to October 2013.

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SDPL's revenues have grown at 23 per cent CAGR over the past five years. The company will continue to benefit from the stable demand environment in the FMCG industry and the reputed brand image of P&G.

Outlook: Stable

SMERA believes that SDPL will continue to maintain a stable business risk profile in the medium term on the back of its established relationship with P&G and efficient working capital management. The outlook may be revised to 'Positive' in case the company achieves registers higher-than-expected revenues and net cash accruals while maintaining a comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the company's working capital management or in case the company registers lower-than-expected revenues and cash accruals.

About the company

SDPL, incorporated in 1999, is a sole distributor for P&G and Gillette in Kerala. The company has 25 branches controlled by two hubs and around 265 direct selling executives in Kerala. The overall operations of the company are headed by Mr. MV Rajesh, CEO and Director of SDPL.

For FY2012-13, SDPL reported net sales of Rs.338.91 crore, as compared with net sales of Rs.258.71 crore for FY2011-12. SDPL's net worth stood at Rs4.24 crore as on March 31, 2013, as compared with Rs.2.79 crore a year earlier.

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