



SMERA RATINGS LIMITED

Sabari Distribution Private Limited (SDPL)

Rating
RationaleJuly 31, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	13.00	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)

SMERA has upgraded its long-term rating on the Rs.13.00 crore bank facility of Sabari Distribution Private Limited (SDPL) to **'SMERA BBB-' (read as SMERA triple B minus)** from **'SMERA BB+' (read as SMERA double B plus)**. The outlook is **'Stable'**.

The upgrade reflects the improvement in SDPL's business risk profile, primarily driven by consistent growth in revenues and SMERA's expectation that the same would be maintained over the medium term. The upgrade also factors in consistent improvement in SDPL's tangible net worth, driven by accretion to reserves and healthy liquidity position supported by efficient working capital management.

The rating continues to reflect SDPL's experienced management, established relationship with its principal Procter & Gamble (P&G) and its efficient working capital management. However, the rating remains constrained by the company's low operating profitability margins owing to the trading nature of operations.

Update

For FY2014-15, SDPL recorded provisional net sales of Rs.453 crore, implying a healthy compounded annual growth rate (CAGR) of 16 per cent over the last two years. SMERA expects the company to sustain its growth momentum over the medium term. The company's operating profitability during FY2014-15 was around 0.8 per cent, in line with past years and is expected to remain at similar levels over the medium term. The company's liquidity remains supported by healthy cash accruals with absence of significant term debt obligations and moderate bank limit utilisation supported by efficient working capital management.

Outlook: Stable

SMERA believes SDPL will continue to benefit over the medium term from its established market position and experienced management. The outlook may be revised to **'Positive'** in case the company achieves sustained improvement in profit margins while maintaining healthy revenue growth, leading to further improvement in its financial risk profile. Conversely, the outlook may be revised to **'Negative'** in case of significant deterioration in the company's profitability or working capital management leading to weakening of its financial risk profile.

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About the Company

SDPL, incorporated in 1999 is the sole distributor for P&G and Gillette's products in Kerala. The overall operations of the company are managed by Mr. M V Rajesh, CEO and Director of SDPL.

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