

Press Release

Sabari Distribution Private Limited (SDPL)

23 April, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) on the Rs. 20.00 crore bank facilities of Sabari Distributors Private Limited. The outlook is '**Stable**'.

SDPL, incorporated in 1999 is the sole distributor for P&G and Gillette's products in Kerala. SDPL is also the sole distributor of Britannia dairy products for Kerala and Britannia biscuits in Wayanad and Kannur districts of Kerala.

Key rating drivers

Strengths

Experienced management

SDPL is a Kerela based company, incorporated in the year 1999 and is promoted by Mr. P.K. Rajan and Mr. Puthan Veedu. The promoters have industry experience of almost two decades in FMCG industry.

SMERA believes that the established track record of SDPL and extensive experience of management has benefited company by building healthy relationship with customers and suppliers (P&G).

Established relation with its principal Procter & Gamble

The company is sole distributor of P&G products in the state of Kerala for the last 15 years. Over the years, support from P&G has been instrumental in streamlining the entire supply chain used by SDPL. The entire inventory management system, and even the hierarchy of the operations and logistics staff, including the middle and senior management is emulated from the best practices followed by P&G.

Effective supply chain and working capital management

The company has established a wide and comprehensive supply chain management system, under the guidance of P&G. The company caters to over 60,000 retailers and 2500 non-retailers (include wholesalers and malls, large format convenience stores etc.) across Kerala. Each of these stores, based on footfalls and monthly sales are categorized into different class of stores. The entire supply chain of the company is structured to be compliant with the norms set by

P&G. The aim of the system is to ensure that any orders given by the retailers are fulfilled within 24 hours. There are 28 branches in Kerala that are controlled by the three hubs. There are around 290 direct selling executives (DSE) present, to cater to all the customers.

Comfortable Financial Risk profile

SDPL has comfortable financial risk profile marked by net worth of Rs. 10.90 Cr. as on March 31, 2017 as compared with Rs 8.47 Cr. as on March 31, 2016. Gearing (debt-equity) stood at 2.08 times as on March 31, 2017 as against 1.01 times as on March 31, 2016. The total debt as on March 31, 2017 stood at Rs.22.63 cr. which consists of term loan of Rs.1.58 cr. and working capital facilities of Rs.21.05 cr. Interest coverage ratio (ICR) stood at 3.38 times for FY2016-17 as against the 3.45 times for FY2015-16. Debt Service Coverage Ratio (DSCR) stood at 2.36 times for FY2016-17 as against 2.27 times for the FY2015-16. Total outside liabilities to tangible networth (TOL/TNW) stood at 3.86 times as on March 31, 2017 as against 3.10 times as on March 31, 2016.

Further SMERA believes the financial risk profile of the company will remain comfortable backed by moderate debt funded capex and moderate net cash accruals.

Weaknesses

Slender operating profitability

The company has reported operating margins 1.08% for FY2017 as against 0.86% for FY2016. 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 slender margins can be attributed to the trading nature of the business. Further, the company takes appropriate measure as required to control its operational costs and maintain its operating margins at the same level. This volatility in its margins can also be attributed to the changes in the margins passed on by P&G to SDPL, change in product mix, change in inventory holding and transportation costs etc.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SDPL to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook on SDPL's rated facilities will remain 'Stable' over the medium term owing to its established relationship with P&G and efficient working capital management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining comfortable debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	559.89	514.51	481.92
EBITDA	Rs. Cr.	6.03	4.41	3.86
PAT	Rs. Cr.	2.45	1.81	1.46
EBITDA Margin	(%)	1.08	0.86	0.80
PAT Margin	(%)	0.44	0.35	0.30
ROCE	(%)	21.99	23.68	19.45
Total Debt/Tangible Net Worth	Times	3.86	3.10	3.83
PBDIT/Interest	Times	3.38	3.45	3.43
Total Debt/PBDIT	Times	3.71	1.91	2.64
Gross Current Assets (Days)	Days	31	22	22

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Jan-2017	Cash Credit	Long Term	20.00	SMERA BBB- / Stable (Reaffirmed)
06-Dec-2016	Cash Credit	Long Term	13.00	SMERA BBB- / Stable (Reaffirmed)
31-Jul-2015	Cash Credit	Long Term	13.00	SMERA BBB- / Stable(Upgraded)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	20.00	SMERA BBB-/Stable

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Rating Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Kashish Shah, Rating Analyst, Tel: +91-22-6714 1152 Email: kashish.shah@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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