

Press Release

Sabari Distribution Private Limited

03 May, 2018



Rating Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs.30.25 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. 26.00 crore bank facilities of **Sabari Distributors Private Limited**. The outlook is '**Stable**'.

Further, SMERA has assigned the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) on the 4.25 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. The company is also the sole distributor of Britannia dairy products for Kerala and Britannia biscuits in Wayannad and Kannur districts of Kerala. For FY2016-17, SDPL reported profit after tax (PAT) of Rs.2.45 crore on operating income of Rs.559.89 crore as compared to PAT of Rs. 1.81 crore on operating income of Rs. 514.51 crore in the previous year.

Key rating drivers

Strengths

Experienced management

The company was incorporated in the year 1999 and is promoted by Mr. P.K. Rajan who has an extensive experience of more than two decades in the FMCG product industry. He has worked with of more than 2 decades working with P&G. In his long tenure at P&G, he has built long standing relationships with many of the key personnel at P&G throughout India.

Established relation with its principal Procter & Gamble

The company is sole distributor of Procter & Gamble products in the state of Kerala for the last fifteen 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. Further, the working capital cycle of the company stood at 16 for FY 2015-16 due to efficient supply chain management practices. The company is sole distributor of Procter & Gamble products in the state of Kerala for the last fifteen 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.

Comfortable Financial Risk profile

SDPL has comfortable financial risk profile marked by Healthy financial risk coverage as the ICR stood at 3.38 times as on FY 2017 as against the ICR of 3.45 times as on the FY 2016. Further the DSCR stood at 2.36 times as on FY 2017 as against 2.27 times as on FY 2016. Further the ROCE stood at 21.99 % as on FY 2017 as compared to 23.68% as on FY 2016.

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

Note on complexity levels of the rated instrument
<https://www.smera.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
23-Apr-2018	Cash Credit	Long Term	20.00	SMERA BBB- / Stable (Reaffirmed)
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)
02-Jan-2014	Cash Credit	Long Term	13.00	SMERA BB+ / Stable (Assigned)

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	Not Applicable	Not Applicable	Not Applicable	26.00	SMERA BBB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.25	SMERA BBB-/ (Assigned)

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ABOUT SMERA

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