Press Release

Sabari Distribution Private Limited

July 05, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 30.25 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 30.25 crore bank facilities of Sabari Distribution Private Limited (SDPL). The outlook is **'Stable'**.

The rating continues to reflect company's established market position as the sole distributor of Procter & Gamble products in the state of Kerala, steady growth in revenue over the last five years and prudent working capital operations. These rating strengths are partially offset by thin profitability margins amid intense competition in the domestic FMCG segment.

Incorporated in 1999, SDPL is the sole distributor of Proctor & Gamble (P&G) and Gillette in the state of Kerala. Additionally, the company is the sole distributor of Britannia dairy products and Britannia Biscuits in Wayanad, Calicut and Kannur district of Kerala. The company facilitates distributorship through 31 branches in Kerala controlled by two hubs and around 265 direct selling executives.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SDPL to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record and established relations with its Proctor & Gamble

SDPL has an established track record of over two decade in FMCG sector. The company is promoted by Mr. P.K. Rajan, who has an extensive experience of more than two decades in the FMCG product industry resulting in long standing relationships with many of the key personnel at P&G throughout India. The company is the sole distributor of Procter & Gamble products in the state of Kerala for the last fifteen years.

• Prudent working capital management

SDPL has established supply chain management system, under the guidance of P&G resulting in prudent working capital management. The gross current asset stood at 37 days as on March 31, 2019 (prov) against 34 days as on March 31, 2018. SDPL procures from carry and forwarding agents who would supply within 24 hours. The same ensures low level of inventory requirement. However, going forward, the inventory level is expected to increase marginally due to changes in procurement policies of P&G. The company caters to over 60,000 retailers and 2500 non-retailers (include wholesalers and malls, large format convenience stores among others) across Kerala via 28 branches in Kerala that are controlled by the three hubs. Credit period extended to customers stood at 20 days as on March 31, 2019 (prov) against 18 days in the previous year.

• Steady growth in revenue

SDPL posted steady growth in its revenue from Rs. 592.75 crore in FY2018 to Rs. 655.12 crore in FY2019 (provisional). Further, to augment and diversify its revenue streams, the company has tied up with Minute Maid for distributing its fruit juice brand of the same name. The company is also a distributor for Britannia Dairy products in the districts of Wayanad, Calicut and Kannur. The same is expected to support the revenue growth in the medium term. The operations are supported by the company's distributorship network of 31 branches across Kerala, controlled by two hubs and around 265 direct selling executives. The company accounts for around 22 per cent of P&G's sales in India, indicative of its strong market position in the country.

Weaknesses

• Moderate financial risk profile

SDPL's financial risk profile remains moderate with modest net worth, moderate gearing and comfortable debt protection metrics. The net worth increased to Rs. 14.75 Crore in FY2019 (prov) as against Rs. 12.81 Crore in FY2018 support by healthy net cash accruals. The gearing declined to 2.37 times in FY2019 (prov) as against 1.84 times in FY2018 on account of higher working capital utilisation. The total outside liability against total net worth remained moderate at 4.04 times in FY2019 (prov) as against 3.91 times in the previous year. The debt protection metrics remained healthy with interest coverage ratio of 2.42 times in FY2019 (prov) as against 2.45 times in the previous year.

• Thin profitability margins

SDPL's operating margin continues to remain thin at 1.16 percent for FY2019 (prov) as against 1.14 percent for FY2018 on account of trading nature of business. The company, however, has been able to maintain its operating margins at stable levels, with the margins ranging from 1.00 percent to 1.15 percent over the past five years. This volatility in its margins can be attributed to the changes in the margins passed on by P&G to SDPL and intense competition in the domestic FMCG segment from existing multinationals as well as entry of new players. Further, the company's operations are also subject to change in polices and strategies of P&G.

Liquidity Profile:

SDPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.78 crore during FY2018-19 against maturing debt obligation of Rs.0.49 crore. The cash credit limit in the company remains utilised at around 66 percent during the last 4-month period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.6.93 crore as on March 31, 2019. The current ratio of the company stood at 1.16 times as on March 31, 2019 (prov). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that SDPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and established relations with its principal P&G. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	655.12	592.75	559.89
EBITDA	Rs. Cr.	7.62	6.77	6.03
PAT	Rs. Cr.	1.93	1.91	2.46
EBITDA Margin	(%)	1.16	1.14	1.08
PAT Margin	(%)	0.29	0.32	0.44
ROCE	(%)	16.14	17.60	33.19
Total Debt/Tangible Net Worth	Times	2.37	1.84	2.08
PBDIT/Interest	Times	2.42	2.45	3.38
Total Debt/PBDIT	Times	4.52	3.44	3.71

Gross Current Assets (Days)	Days	37	34	31

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-17.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-May-2018	Cash Credit	Long Term	26.00	ACUITE BBB- /Stable (Reaffirmed)
	Term Loan	Long Term	4.25	ACUITE BBB- /Stable (Assigned)
23-April-2018	Cash Credit	Long Term	20.00	ACUITE BBB- /Stable (Reaffirmed)
31-Jan-2017	Cash Credit	Long Term	20.00	ACUITE BBB- /Stable (Reaffirmed)
06-Dec-2016	Cash Credit	Long Term	13.00	ACUITE BBB- /Stable (Reaffirmed)

***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	26.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.00	ACUITE BBB- / Stable (Withdrawn)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE BBB- / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.