

Press Release

Sabari Distribution Private Limited

September 22, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 41.25 Cr. (Enhanced from Rs.30.25 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) on the Rs. 41.25 crore bank facilities of Sabari Distribution Private Limited (SDPL). The outlook is '**Stable**'.

The rating upgrade reflects sustenance and consistent improvement of the revenue growth over the years. SDPL reported revenue of Rs.689.93 crore for FY2020 (provisional); a growth of about 5 per cent over FY2019 revenues Rs.656.40 Crore. Simultaneously, SDPL's operating margin improved to ~1.32 % in FY2020 from 1.14 % in FY2018. Further, the ratings continue to reflect the experienced management and established track record of operations. However, it is constrained by moderate financial risk profile and thin profitability.

Incorporated in 1999, SDPL is the sole distributor of Proctor & Gamble (P&G) for the entire range of P&G products 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.

Analytical Approach

Acuite has taken the standalone view of the 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 and Steady revenue growth**

SDPL has an established track record of over two decades in FMCG sector. The company is promoted by Mr. Padmanabhapillai Krishnarajan 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 senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The company covers 60,000 plus customers and the key customers of the company include reputed names like Lulu Ware House, More Retail Limited, Lachmandas Trading Company, Bismi Hypermart Private Ltd, Pothys, Dhanya Consumers Pvt. Ltd, Future Retail Ltd, Spencer's Retail Limited, amongst others with no major concentration in revenues. Further, the company is the sole distributor of Proctor & Gamble products in the state of Kerala for the two decades. SDPL's revenues have seen a CAGR of about ~8 per cent over five years through FY2020 at Rs.689.93 crores from Rs.514.51 crores in FY2016. The growth is aided by deeper penetration across the state and product profile across the segments with strong distribution network encompassing almost 60,000+ customer chain and 31 branches across the state.

Acuite believes that SDPL's business risk profile is expected to improve further supported by industry experience and domain knowledge of the management, geographical reach and established relationship with the principal will support SDPL's business growth and stable margins over the years.

- **Efficient working capital management**

SDPL manages its working capital efficiently as reflected in its gross current assets (GCAs) of 34-37 days during last three years ended through March 31, 2020 (Provisional) marked by low inventory of 7-9 days and debtors of 17-20 days respectively. Its creditor days are around 5-13 days for the past three years

ended through March 31, 2020 (Provisional). SDPL's working capital limits utilised at 65 percent over the past six months through July 2020. SDPL procures from carry and forwarding agents who would supply within 24 hours. The same ensures a low level of inventory requirement.

Acuité believes that the working capital operations of the company will remain efficient due to efficient collection mechanism and just in time inventory levels.

Weaknesses

• Moderate financial risk profile

SDPL has a moderate financial risk profile characterised by leveraged capital structure and moderate coverage indicators. SDPL's capital structure is highly leveraged as reflected by the Gearing (debt-equity) has deteriorated as it stands at 2.61 as on 31 March 2020 (Provisional) as against 2.37 times as on 31 March 2019. Its total outside liabilities to tangible net worth (TOL/TNW) stood high at 3.38 times for as on March 31, 2020 (Provisional) as against 3.91 times for as on 31 March 2019. SDPL's net worth is modest and increased to Rs. 18.35 crore as on March 31st, 2020 (Provisional) as against Rs. 15.31 crore as on March 31st, 2019, due to accretion to reserves. The debt-coverage indicators also remain modest, as reflected by interest coverage ratio of 2.11 times and net cash accrual to total debt of 20.08 times for FY2020 Vis-à-vis 2.48 times and 0.09 times for FY2019. The company has adequate liquidity, marked by moderate net cash accruals to its maturing debt obligations. The SDPL generated cash accruals of Rs.2.65 to 2.85 crore during the last three years through 2018-20, while its maturing debt obligations were below Rs.0.50 crore over the same period. The cash accruals are estimated to remain around Rs.2.50-3.00 crore during FY2021-23 while its repayment obligation is estimated to be around Rs.0.50 crore over the same period.

Acuité expects the financial risk profile to remain moderate over the medium term on account of moderate accretion to reserves, absence of significant debt-funded capex and moderate profitability margins.

• Thin profitability margins

SDPL's operating margin continues to remain thin at 1.32 percent for FY2020 (Provisional) as against 1.20 percent for FY2018 on account of trading nature of business. The company, however, has been able to maintain its operating margins at stable and consistent marginal improvement, with the margins ranging from 1.00 percent to 1.32 percent over the past five years ended FY2020 (Provisional). This volatility in its margins can be attributed to the changes in the margins passed on by P&G to SDPL. Further, the company's operations are also subject to change in policies and strategies of P&G. However, it faces stiff competition from modern trade and distributors of other FMCG players and any change in the distribution and price/margin structure or entry of new distributors of other established FMCG players may adversely affect its business.

Liquidity position: Adequate

SDPL's liquidity is adequate, marked by moderate cash accruals and prudent working capital management. The company has adequate liquidity, marked by moderate net cash accruals to its maturing debt obligations. The SDPL generated cash accruals of Rs.2.65 to 2.85 crore during the last three years through 2018-20, while its maturing debt obligations were below Rs.0.50 crore over the same period. The cash accruals are estimated to remain around Rs.2.50-3.00 crore during 2021-23 while its repayment obligation is estimated to be around Rs.0.50 Crore over the same period. SDPL manages its working capital efficiently as reflected in its gross current assets (GCAs) of 34-37 days during last three years ended through March 31, 2020, due to prudent working capital management its working capital limits are utilization stands at 65% during last six months ended through July 2020. The current ratio stands at 1.13 times as on FY2020 (provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual.

Rating sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile

Material Covenants

None

Outlook: Stable

Acuité believes that SDPL will maintain a 'Stable' outlook over the medium term owing to its promoter's extensive experience in the FMCG industry, established relations with its principal P&G and favourable demand outlook of the FMCG sector. The outlook may be revised to 'Positive' in case the company scales up its operations while improving its profitability, capital structure and coverage indicators, while efficiently

managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if a decline in sales or profitability results in lower-than-anticipated net cash accruals, any substantial debt-funded capex or any stretch in working capital intensity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	689.93	656.40
PAT	Rs. Cr.	3.02	2.50
PAT Margin	(%)	0.44	0.38
Total Debt/Tangible Net Worth	Times	2.61	2.30
PBDIT/Interest	Times	2.11	2.48

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-July-2019	Cash Credit	Long Term	26.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	4.25	ACUITE BBB- (Withdrawn)
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)

*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	41.00 (Enhanced from Rs.26.00 Cr.)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.25 (Revised from Rs.4.25 Cr)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)

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About Acuité Ratings & Research:

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