

Press Release

Sabari Distribution Private Limited

July 11, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	41.25	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	8.50	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	49.75	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 8.50 Cr bank facilities of Sabari Distribution Private Limited (SDPL). The outlook is '**Stable**'.

Reason for Rating Reaffirmation

The rating is reaffirmed on account of improved operating performance and moderate financial profile of SABARI DISTRIBUTION PRIVATE LIMITED (SDPL). The operating income of SDPL has been consistently growing since the last five years from FY2017. The Company's revenue stood at Rs.897.24 Cr in FY2022 (Prov.) as against Rs. 525.32 Cr in FY2017. The growth is driven by higher network coverage and expansion into newer geographies. The financial risk profile of SDPL continues to remain moderate marked by leveraged capital structure and moderate coverage indicators. The overall gearing of the Company stood at 2.25 times as on March 31, 2022 (Prov.) as against 1.58 times as on March 31, 2021 and 2.59 times as on 31 March 2020. The interest coverage ratio stood at 2.80 times in FY2022 (Prov.) as against 3.44 times in FY2021 and 2.20 times in FY2020.

About the Company

Incorporated in 1999, Sabari Distribution Private Limited (SDPL) is promoted by Mr.Shashi Kumar, Mr. Padmanabhapillai Krishnarajan Rajan, Mr. Sreekumar Puthan Veedu and others. The Company is the sole distributor of Proctor & Gamble (P&G) for the entire range of its products in the state of Kerala and four districts of Tamil Nadu. Additionally, the company is the sole distributor of Britannia dairy products and Britannia Biscuits in Wayanad, Calicut, Kannur, Ernakulam and Kottayam district of Kerala and Tamil Nadu. The company facilitates distributorship through 43 branches in Kerala.

Analytical Approach

Acuité 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 Procter & 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 1,10,000 plus customers and the key customers of the company include reputed names like Lulu, 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 Procter & Gamble (P&G) products in the state of Kerala for the two decades. It expanded its operations into Tamil Nadu by taking over the P&G distribution in four districts - Coimbatore, Nilgiris, Erode, Tiruppur with effect from April 2021. The Company also started new Britannia branches at Ernakulam (wef November, 2021) and at Kotayam (wef April, 2022). SDPL's revenues have seen a CAGR of about ~14 per cent over five years through FY2022 (Prov.) at Rs.897.24 Cr from Rs.525.32 crores in FY2017. The growth is aided by deeper penetration across the state, expansion into new markets and product profile across the segments with strong distribution network.

Acuité 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 (GCA) days of 40-47 days during last three years ended through March 31, 2022 (Provisional) marked by low inventory of 17-19 days and debtors of 16-21 days respectively. Its creditor days are around 5-13 days for the past three years ended through March 31, 2022 (Provisional). SDPL's working capital limits utilization ranged between 65 -85 percent over the past twelve months through May 2022. 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) of 2.25 times as on March 31, 2022 (Prov.) as against 1.58 times as on March 31, 2021 and 2.59 times as on 31 March 2020. The total debt rose to Rs. 69.67 Cr as on March 31, 2022 constituting Rs.11.97 Cr of long term borrowings and Rs. 57.70 Cr of short term borrowing. The tangible networth stood at Rs. 30.86 Cr as on March 31, 2022 (Prov.) as against RS.25.83 Cr as on March 31, 2021 and Rs.18.47 Cr as on March 31, 2020. The improvement is largely on account of accretion of profits to reserves. The debt-coverage indicators remain modest, as reflected by interest coverage ratio of 2.80 times and net cash accrual to total debt of 0.08 times for FY2022 (Prov.) vis-à-vis 3.44 times and 0.15 times respectively for FY2021 and 2.20 times and 0.08 times respectively for FY2020.

Acuité believes in the absence of any major debt funded capex plan, the financial risk profile of SDPL will continue to remain moderate over the medium term.

> Thin Profitability Margins:

SDPL's operating margin continues to remain thin on account of trading nature of business. The margins stood at 1.29 percent in FY2022 (Prov) as against 1.59 percent in FY2021 and 1.38 percent in FY2020. 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. The margins in FY2021 also improved because of savings in travelling costs incurred. Due to restrictions on movement of general public, during the Covid-19 induced lockdown and thereafter, SDPL registered savings on its travel costs in FY2021. However, SDPL continues to face 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.

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

Liquidity Position: Adequate

SDPL's liquidity is adequate, marked by moderate cash accruals against repayment obligations and prudent working capital management. SDPL generated cash accruals of Rs.4 to 6.20 crore during the last three years through 2020-22 (Prov.), while its maturing debt obligations were below Rs.0.50 crore over the same period. The cash accruals are estimated to remain around Rs.6-7 crore over the medium term while its repayment obligation is estimated to be around Rs.2.25-4.50 Crore over the same period. SDPL manages its working capital efficiently as reflected in its gross current assets (GCAs) of 40-47 days during last three years ended through March 31, 2022. Its working capital limit utilization ranged between 65-85% during last twelve months ended through May 2022. The current ratio stands at 1.27 times as on March 31, 2022 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual against repayment obligations.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	713.23	672.00
PAT	Rs. Cr.	5.36	3.14
PAT Margin	(%)	0.75	0.47
Total Debt/Tangible Net Worth	Times	1.58	2.59
PBDIT/Interest	Times	3.44	2.20

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Sep 2020	Proposed Bank Facility	Long Term	0.25	ACUITE BBB Stable (Upgraded from ACUITE BBB-)
	Cash Credit	Long Term	41.00	ACUITE BBB Stable (Upgraded from ACUITE BBB-)
05 Jul 2019	Term Loan	Long Term	4.25	ACUITE BBB- (Withdrawn)
	Cash Credit	Long Term	26.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	4.25	ACUITE BBB- Stable (Assigned)
03 May 2018	Cash Credit	Long Term	26.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.25	ACUITE BBB- Stable (Assigned)
23 Apr 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)
31 Jul 2015	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
02 Jan 2014	Cash Credit	Long Term	13.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Dhanlaxmi Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	41.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	30-09-2024	0.25	ACUITE BBB Stable Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	8.50	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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