

Press Release

Sabari Distribution Private Limited

March 08, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.75	ACUITE BBB Positive Assigned	-
Bank Loan Ratings	49.75	ACUITE BBB Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	62.50	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 49.75 Cr bank facilities of Sabari Distribution Private Limited (SDPL). The outlook has been revised from '**Stable**' to '**positive**'.

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 12.75 Cr bank facilities of Sabari Distribution Private Limited (SDPL). The outlook is '**Positive**'.

Rating Rationale

The revision in outlook is primarily driven by the sustained improvement in SDPL's scale of operations. The operating income of SDPL has been consistently growing since the last three years from FY2020. SDPL has recorded operating income of Rs.897.71 Cr in FY2022 as against Rs.713.23 Cr in FY2021. The growth is driven by higher network coverage and expansion into newer geographies. In 9MFY23, the operating income stood at Rs. 821.00 Cr and is expected to generate Rs. 1000-1031 Cr by year end. The operating margins though low, remained stable as it ranged between 1.49-1.59% during the period FY2020-22. The working capital management of the company is efficient as evident from GCA days of 47 days for FY2022, and moderate dependence on working capital limits with average utilization being around ~62 percent for the last nine December, 2022. The rating continues to take cognizance of the established track record and experienced management of SDPL. However, The rating is constrained by the thin profitability margins and moderately leveraged financial risk profile of SDPL. Going forward, SDPL's ability to sustain its improved scale of operations while improving its profitability margins and maintaining its capital structure will remain a key rating monitorable.

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 Kotayam 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 Enakulam (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 at Rs.897.71 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 operations**

SDPL manages its working capital efficiently as reflected in its gross current assets (GCA) days of 47 days as on March 31, 2022 as against 42 days as on March 31, 2021. Inventory days stood at 17 days as on March 31, 2022 as against 17 days as on March 31, 2021. Subsequently, the payable period stood at 16 days as on March 31, 2022 as against 13 days as on March 31, 2021 respectively. The debtor day stood at 21 days as on March 31, 2022 as against 16 days as on March 31, 2021. Further, the average bank limit utilization in the last nine months ended December, 22 remained at ~62 percent for fund based. 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**

The financial risk profile of the company is moderately leverage marked by modest net worth, moderate gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.31.72 Cr and Rs.25.83 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company stood at 1.80 times as on March 31, 2022 against 1.58 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.15 times and 2.51 times as on March

31, 2022 respectively as against 3.44 times and 2.51 times as on March 31, 2021 respectively. The debt to EBITDA of the company stood at 4.21 times as on March 31, 2022 as against 3.54 times as on March 31, 2021. NCA /TD stood at 0.12 as on March 31, 2022 as against 0.15 times as on March 31, 2022. Acuite 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 1.49 percent in FY2022 as against 1.59 percent in FY2021 and 1.38 percent in FY2020. This marginal fluctuations 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, 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

The liquidity profile of the company is adequate marked by adequate net cash accruals against repayment obligations. The company generated net cash accruals (NCA) of Rs 7.02 Cr ending FY2022 against its maturing debt obligations of Rs.0.20 Cr. The company is expected to generate net cash accruals in the range of Rs.10.15 to 12.12 Cr against repayment obligations of Rs.2.03 to 3.36 Cr over the medium term. Unencumbered cash and bank balances stood at 8.09 Cr as on March 31, 2022. The current ratio of the company stood at 1.32 times as on March 31, 2022. Further, the average bank limit utilization in the last nine months ended December, 22 remained at ~62 percent for fund based. Acuite 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: Positive

Acuite believes that SDPL will maintain a 'Positive' outlook benefiting from its improved operating performance driven by expansion into new geographies. The rating may be upgraded on sustenance of its improved scale of operation while maintaining its profitability margins and capital structure.. Conversely, the outlook may be revised to 'Stable' if the company's generates lower than expected improvement in its scale of operations or deterioration in its profitability levels and capital structure or incase of elongation of its working capital cycle adversely impacting its liquidity position.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	897.71	713.23
PAT	Rs. Cr.	5.89	5.36
PAT Margin	(%)	0.66	0.75
Total Debt/Tangible Net Worth	Times	1.80	1.58
PBDIT/Interest	Times	3.15	3.44

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Jul 2022	Cash Credit	Long Term	41.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.25	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	8.50	ACUITE BBB Stable (Assigned)
22 Sep 2020	Cash Credit	Long Term	41.00	ACUITE BBB Stable (Upgraded from ACUITE BBB-)
	Proposed Bank Facility	Long Term	0.25	ACUITE BBB Stable (Upgraded from ACUITE BBB-)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Dhanlaxmi Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	41.00	ACUITE BBB Positive Reaffirmed Stable to Positive
Dhanlaxmi Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.25	ACUITE BBB Positive Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	30 Sep 2024	Simple	0.25	ACUITE BBB Positive Reaffirmed Stable to Positive
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.50	ACUITE BBB Positive Reaffirmed Stable to Positive
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.50	ACUITE BBB Positive 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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