



**Press Release**  
**Sabari Distribution Private Limited**  
**June 05, 2024**  
**Rating Upgraded**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	62.50	ACUITE BBB+   Stable   Upgraded   Positive to Stable	-
Total Outstanding Quantum (Rs. Cr)	62.50	-	-

**Rating Rationale**

Acuite has upgraded the long-term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE triple B)** on the Rs. 62.50 Cr. bank facilities of Sabari Distribution Private Limited (SDPL). The outlook has been revised from **'Positive'** to **'Stable'**.

**Rationale for Upgrade and revision in outlook:**

The upgrade and revision in outlook takes into account SDPL's improved scale of operation while maintaining its profitability margins and capital structure. The operating income of the company has shown YOY growth of 22.59 percent in FY2023, which stood at Rs. 1100.54 Cr. as against Rs. 897.71 Cr. in FY2022. The growth in operating income in FY2023 is driven by the expansion of SBDL's operations into Tamil Nadu and Kerala. Further, it is estimated to achieve a revenue of Rs. 1237.22 Cr. in FY2024. The operating margins stood at 1.73 percent in FY2023 as against 1.49 percent in FY2022. The financial risk profile of the company continues to be moderate, with comfortable debt protection metrics and moderate gearing levels. Debt protection metrics: interest coverage ratio and debt service coverage ratio stood at 3.21 times and 2.07 times as of March 31, 2023, respectively, as against 3.15 times and 2.51 times as on March 31, 2022, respectively. The rating further, considers SDPL's established track record of operations and its experienced management. The ratings are further supported by the company's efficient working capital management, with GCA days of 41 in FY2023.

The rating, however, remains constrained by the thin profitability margins.

**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 districts of Kerala and Tamil Nadu. The company facilitates distributorship through 43 branches in Kerala.

**Unsupported Rating**

Not applicable

**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 Proctor & Gamble and steady revenue growth**

SDPL has an established track record of over two decades in the FMCG sector. The company is promoted by Mr. Padmanabhapillai Krishnarajan Rajan, who has extensive experience spanning 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 in their established relationships with customers and suppliers. The company covers 1,10,000+ 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, and Spencer's Retail Limited, amongst others, with no major concentration in revenues. Further, the company has been the sole distributor of Procter & Gamble (P&G) products in the state of Kerala for the past two decades. It expanded its operations into Tamil Nadu by taking over the P&G distribution in four districts: Coimbatore, Nilgiris, Erode, and Tiruppur, with effect from April 2021. The company also started new Britannia branches at Ernakulam (as of November 2021) and Kotayam (as of April 2022). 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 relationships with the principal, which will support SDPL's business growth and stable margins over the years.

- **Improving scale of operations**

The operating income of the company has shown YOY growth of 22.59 percent in FY2023, which stood at Rs. 1100.54 Cr. as against Rs. 897.71 Cr. in FY2022. The growth in operating income in FY2023 is driven by expansion of SBDL's operations into Tamil Nadu and Kerala. SBDL has expanded into Tamil Nadu by taking over the P&G distribution in four districts - Coimbatore, Nilgiris, Erode, Tiruppur and further, the Company has expanded its Kerala coverage by an additional store. Further, it is estimated to achieve a revenue of Rs. 1237.22 Cr. in FY2024, the operating profit margins are estimated to be in the range of 1.35 - 1.42 percent. Acuité believes that the scale of operations will continue to be improve over the medium term.

- **Efficient Working capital operation**

SDPL's operations are working capital efficient in nature, marked by gross current assets (GCA) days of 41 days as on March 31, 2023, as against 46 days as on March 31, 2022. Inventory days stood at 15 days as on March 31, 2023, as against 17 days as on March 31, 2022. The debtor day stood at 21 days as on March 31, 2023, as against 21 days as on March 31, 2022. Subsequently, the payable period stood at 9 days as on March 31, 2023, as against 16 days as on March 31, 2022, respectively. Further, the average bank limit utilization in the last six months ended March 2023 remained at ~73 percent for fund-based. Acuité believes that the company will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate, with a moderate net worth, a moderate a moderate capital structure, moderate gearing, and comfortable debt protection metrics. The net worth of the company stood at Rs.41.00 Cr. and Rs.31.72 Cr. as on March 31, 2023, and 2022, respectively. The gearing of the company stood at 1.72 times as on March 31, 2023, against 1.80 times as on March 31, 2022. Debt protection metrics: interest coverage ratio and debt service coverage ratio stood at 3.21 times and 2.07 times as on March 31, 2023, respectively, as against 3.15 times and 2.51 times as on March 31, 2022, respectively. The debt to EBITDA of the company stood at 3.63 times as on March 31, 2023, as against 4.20 times as on March 31, 2022. NCA/TD

stood at 0.15 times as on March 31, 2023, as against 0.12 times as on March 31, 2022. Acuite believes that 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.

## **Weaknesses**

- **Thin Profitability Margins**

SDPL's operating margin continues to remain thin on account of trading nature of business. The margins stood at 1.73 percent in FY2023 as against 1.49 percent in FY2022 and 1.59 percent in FY2021. 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.
- Any significant elongation of working capital cycle

## **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 10.72 Cr. ending FY2023 against its maturing debt obligations of Rs. 2.03 Cr. The company is expected to generate net cash accruals in the range of Rs.8.98 to 15.56 Cr. against repayment obligations of Rs.2.44 to 2.99 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 8.70 Cr. as on March 31, 2023. The current ratio of the company stood at 1.37 times as on March 31, 2023. Further, the average bank limit utilization in the last six months ended March, 2023 remained at ~73 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: Stable**

Acuite 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 high than expected 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.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1100.54	897.71
PAT	Rs. Cr.	9.28	5.89
PAT Margin	(%)	0.84	0.66
Total Debt/Tangible Net Worth	Times	1.72	1.80
PBDIT/Interest	Times	3.21	3.15

### 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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Mar 2023	Cash Credit	Long Term	8.25	ACUITE BBB   Positive (Assigned)
	Cash Credit	Long Term	41.00	ACUITE BBB   Positive (Reaffirmed)
	Proposed Cash Credit	Long Term	0.25	ACUITE BBB   Positive (Reaffirmed)
	Term Loan	Long Term	4.50	ACUITE BBB   Positive (Assigned)
	Term Loan	Long Term	8.50	ACUITE BBB   Positive (Reaffirmed)
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)

## 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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	49.50	ACUITE BBB+   Stable   Upgraded   Positive to Stable ( from ACUITE BBB )
Dhanlaxmi Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	09 Apr 2025	Simple	8.50	ACUITE BBB+   Stable   Upgraded   Positive to Stable ( from ACUITE BBB )
Dhanlaxmi Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	11 Mar 2027	Simple	4.50	ACUITE BBB+   Stable   Upgraded   Positive to Stable ( from ACUITE BBB )

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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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