



Press Release

Shri Rathna Akshaya Estates Private Limited

June 22, 2022

Rating

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicators
Long Term Bank Facilities	297.54 (reduced from Rs.301.96 crore)	IVR BBB+; Credit Watch with Developing Implications (IVR Triple B Plus; Credit Watch with Developing Implications)	Rating Reaffirmed with continuation of Credit Watch with Developing Implications	Simple
Total	297.54 (Rupees Two Hundred Ninety Seven crore and Fifty Four lakh only)			

Details of facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Shri Rathna Akshaya Estates Private Limited (SRAEPL) factors in its track record of group and extensive experience of management, moderate scale of operations, moderate financial risk profile. The rating is, however, constrained by working capital intensive nature of operations and exposure to intense competition in the retail industry.

The rating continues to remain under Credit Watch with Developing Implications owing to the observations highlighted in the audit report of FY19, FY20 and FY21. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the company's credit risk profile are clear.

Key Rating Sensitivities

Upward Rating Factor

- Improvement in the operating cycle with inventory day below 90 days leading to improvement in liquidity.

Downward Rating Factor

- Dip in profitability affecting the company's financial performance and liquidity position.
- Stretch in the working capital cycle driven by pile-up of inventory and/or sizeable capital expenditure weakening the financial risk profile.
- Stabilisation of operations at the recently constructed showroom at Chennai remains a key rating monitorable.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Track record of group and extensive experience of management

Saravana stores has been in retail business for over more than 4 decades. SRAEPL is a part of Saravana Selvarathnam group, which is largest family-owned enterprises in Tamil Nadu. Promoters also have extensive experience in the retail market and have wide reputation in entire corporate retail market segment. The “Saravana Selvarathnam Stores” has a wide brand presence in domestic and as well across country. The group targets low and middle-income customers. The company has strong procurement linkages owing to large scale of operations, and also commands pricing of cost-plus-nominal mark-up from manufacturers.

Moderate scale of operations

SRAEPL's total operating income declined by 28.58% in FY21 to Rs.274.39 crore in FY21 from Rs.385.18 crore in FY20 as the company had to shut down majority of its stores during COVID-19 related lockdown for the period of 5 months commencing April 2020 to August 2020. Only the grocery division was allowed to be opened during this period. In September 2020, the stores were allowed to reopen but there were issues with respect to labour, policies of opening store on odd-even days and limited operational timings, which impacted the sales of the company. The Government allowed to open all the function of the showrooms from October 2020 onwards. EBITDA margin deteriorated from 10.22% in FY20 to 7.67% in FY21 as the company had to bear the employee cost during the lockdown period. Further, the sales from the higher margin textile and readymade garments segment were significantly hit during this period. Consequently, PAT margin also deteriorated from 4.85% in FY20 to 2.31% in FY21, while the GCA deteriorated significantly from Rs.22.34 crore in FY20 to Rs.9.76 crore in FY21.

During FY22, the company had to shut down majority of its stores during COVID-19 related lockdown between April 2021 to June 15, 2021, and again from January 1, 2022 to January 26, 2022 during the second and third waves of COVID-19. Accordingly, the company's performance was affected in FY22 also. However, SRAEPL's total operating income increased by 13.49% in FY22 (Provisional) to Rs.311.41 crore from Rs. 274.39 crore in FY21 as the company was operational for a longer period in FY22 as compared to FY21. EBITDA margin declined to 6.74% in FY22 (Provisional) as the company had to bear the employee cost during the lockdown period. PAT margin remained almost at the same level at 2.35%, while the GCA improved marginally to Rs.10.65 crore in FY22 (Provisional).

Moderate financial risk profile

Overall gearing ratio deteriorated to 2.18x as on March 31, 2021 from 1.59x each as on March 31, 2020 led by increase in total debt. TOL/TNW also deteriorated to 2.38x as on March 31, 2021 from 1.74x as on March 31, 2021. The Interest coverage ratio deteriorated and stood at 2.40x in FY21 against 4.88x in FY20 led by decline in operating profit coupled with increase in interest



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cost. The total debt/ GCA also deteriorated sharply from 10.83x in FY20 to 35.49x in FY21 due to the sharp decline in GCA.

Overall Gearing ratio and TOL/ TNW ratio deteriorated to 2.30x and 2.80x respectively as on March 31, 2022 (Provisional) due to further increase in total debt. The interest coverage ratio improved to 2.88x in FY22 led by decline in interest cost led by lower utilization of CC limits in FY22 compared to FY21. Total debt/ GCA continued to remain at similar levels at 35.88x in FY22 (Provisional).

Key Rating Weaknesses

Working capital intensive operations

Operating cycle deteriorated to 203 days in FY21 from 140 days in FY20 mainly due to the elongation in the average inventory period from 159 days in FY20 to 232 days in FY21. Typically, the inventory period is high in the retail trading business; this was further impacted in FY21 on account of COVID-19. SRAEPL does not extend credit to its customers. Average creditor days increased to 29 days in FY21 against 19 days in FY20.

Operating cycle improved to 156 days in FY22 (Provisional) due to decrease in inventory period and increase in average creditors day. Average inventory period stood at 219 days in FY22 (Provisional) while the average creditor days stood at 64 days in FY22 (Provisional).

Exposure to intense competition in the retailing industry

The company has shopping complexes on the high streets of Madurai, Tirunelveli and Chennai, which are flooded with small and large players in the same line of business. It faces intense competition in terms of product quality and pricing, which leads to continuous pricing pressure, affecting its margins.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for trading companies](#)

[Financial Ratios and Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity – Adequate

SRAEPL's liquidity is adequate with current ratio of 1.31x as on March 31, 2022 (Provisional) and 1.79x as on March 31, 2021. GCA of the company stood at Rs.9.76 crore in FY21 and Rs.10.65 crore in FY22 (Provisional). Cash and Bank balance stood at Rs.1.38 crore as on March 31, 2022 and Rs.14.27 crore as on March 31, 2021. SRAEPL has sufficient cash accruals as against the long-term debt repayment obligations. Its average fund based working capital utilization for the 12 months ended March 2022 stood around 80.21%.



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About the Company

SRAEPL was established in the year 2014 to capitalise on the brand value of the Saravana group. SRAEPL was promoted in the name of second daughter of Mr. Selva Rathnam Saravana Arul. The company is engaged in trading of gold, silver and diamond ornaments, textiles and readymade garments, footwear and cosmetics, household articles and electronic goods and mobile phones and provisions, vegetables, and fruits. The retail stores are located at Madurai, Tirunelveli and Chennai in Tamil Nadu.

SRAEPL has completed the construction of a new retail showroom at Pallavaram in Chennai, Tamil Nadu and has done a soft opening during April 2022. The showroom will commence its full commercial operations in July 2022.

The showroom is constructed on land of 2.83 acres owned by SRAEPL and has also entered long-term lease for another 1.635 acres of land which is owed by its group company Saravana Selvarathnam Retail Private Limited. The showroom includes 11 movie screens and is aimed at creating a one-stop destination for retail products and entertainment at Chennai. The built-up area of the retail showroom with theatre screens is 9,67,750 sq. ft. Each floor has an area of approximately 76,000 sq. ft. It also has two basements for parking for around 1200 cars and around 1000 two-wheeler vehicles, apart from food court.

There was time overrun of 1 year due to COVID-19 related restriction. The total cost of project is Rs.394.98 crore funded through debt-equity mix of 1.27:1, against estimated cost of Rs.370.65 crore. There is cost overrun of Rs.24.33 crore which was funded through internal accruals.

Financials (Standalone):

(Rs. crore)

For the year ended/As on*	31-03-2020	31-03-2021	31-03-2022
	Audited	Audited	Provisional
Total Operating Income	385.18	274.39	311.41
EBITDA	39.35	21.05	21.00
PAT	18.70	6.35	7.34
Total debt	241.90	346.37	382.15
Tangible Net worth	152.19	158.56	165.89
Ratios			
EBITDA Margin (%)	10.22	7.67	6.74
PAT Margin (%)	4.85	2.31	2.35
Overall Gearing Ratio (x)	1.59	2.18	2.30

*Classification as per Infomerics' Standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) and Rating (s) assigned in 2021-22	Date(s) and Rating (s) assigned in 2020-21 (PR dated March 23, 2021)	Date(s) and Rating(s) assigned in 2019-20
1.	Long Term Bank Facility – Term Loan	Long Term	222.54	IVR BBB+; Credit Watch with Developing Implications	-	IVR BBB+; Credit Watch with Developing Implications	-
2.	Long Term Bank Facility – Cash Credit	Long Term	75.00	IVR BBB+; Credit Watch with Developing Implications	-	IVR BBB+; Credit Watch with Developing Implications	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Instruments/ Facilities

Name of Instruments / Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	September 2029	222.54	IVR BBB+; Credit Watch with Developing Implications
Cash Credit	-	-	-	75.00	IVR BBB+; Credit Watch with Developing Implications

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Shri-Rathna-june22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.