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Shubham K-Mart Private Limited

October 28, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	37.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Total		37.00	INR Thirty-Seven Crore Only	

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Shubham K-Mart Private Limited (SKMPL) considers the common management team and operational & financial linkages between SKMPL and its group concerns, Sumeet Synfab India Private Limited (SSIPL) and Sumeet Gems and Jewellers Private Limited (SGJPL). Infomerics has taken a consolidated view of these entities referred together as Sumeet Group. The rating derive comfort from established track record of the group under experienced promoters and infusion of unsecured loans by the promoters to support the business operations. The rating also factors in diversified product offerings, steady improvement in financial performance of the group, its comfortable financial risk profile with satisfactory debt protection metrics and effective working capital management. However, these rating strengths remain constrained due to its presence in highly fragmented and competitive industry and exposure to geographical concentration risk.

Key Rating Sensitivities

Upward Factors:

- Sustained & significant improvement in revenue and profitability leading to higher cash accrual
- Improvement in the capital structure with improvement in TOL/TNW to below 1.5x and sustained improvement in debt protection metrics
- Improvement in liquidity

Downward Factors:

- Any decline in revenue & profitability leading to deterioration in debt protection metrics with interest coverage moderated to below 2x



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- Withdrawal of subordinated unsecured loans from the promoters and/or deterioration in the capital structure with overall gearing rating deteriorated over 2x
- Any major unplanned debt funded capital expenditure or increase in working capital intensity leading to tightened liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with established track record of operations

Sumeet group, established by Late Shri Bhanwar Lal Ji Kankaria in 1984, is now managed by the second and third generations of the Kankaria family. The promoters have more than three decades of experience and have developed deep understanding of the dynamics of the market, while the second line of management has experience of more than two decades and has been associated with group for a long period

Diversified product offerings

Sumeet group is among the largest traders of textiles in Chhattisgarh. Gradually the group has started dealing in jewelry and grocery items through its various companies both in the wholesale and retail segment.

Steady improvement in financial performance of the group

The Group witnessed steady improvement in its combined revenue over the past three fiscals driven by continuous addition of shops and more or less stable demand of its traded goods. Further, in FY21, the group witnessed steady improvement in its jewellery segment under SGJPL. The consolidated TOI increased at a CAGR of ~22% during FY19-21, with a y-o-y growth of ~47%, from Rs.856.74 crore in FY20 to Rs.1263.13 crore in FY21. Additionally, the group has also ventured into trading of grocery through its stores, commencing from March 2020, through SKMPL, which provided a decent earning in FY21. Moreover, the group has achieved a combined revenue of ~Rs.543 crore in the half year ending September 30th, 2021. Being in trading segment the profit margin of the group remained perennially low and range bound.

Comfortable financial risk profile with satisfactory debt protection metrics

The debt profile of the group includes term loans from banks, unsecured loans from the promoters and working capital borrowings. The promoters have supported the business by infusing subordinated unsecured loan on regular intervals. The subordinated unsecured loans



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as on March 31, 2021 stood at Rs.37.00 crore. The adjusted tangible net worth (ATNW) of the company including subordinated debt from the promoters stood at Rs.149.55 crore. The overall gearing ratio stood at 1.50x as on March 31, 2021 (as compared to 1.58x as on March 31, 2020). Further, the total indebtedness of the group also remained moderate marked by TOL/ATNW at 2.52x as on March 31, 2021 (as compared to 2.45x as on March 31, 2020). The company had a comfortable gross cash accrual of Rs.26.25 crore as against its committed repayment obligation of Rs. 5.03 crore in FY21. Additionally, the debt protection metric remained comfortable, as reflected by the interest coverage ratio of 2.52x in FY21 as against 2.15x in FY20.

Effective working capital management

The group exhibits prudent working capital management as reflected by its modest inventory and controlled receivables. The operating cycle of the group remained comfortable at 60 days in FY21 (as compared to 81 days in FY20)

Key Weaknesses

Highly fragmented and competitive industry

The retail industry is highly competitive and fragmented in nature with several large players and numerous small players. Healthy growth prospects, high profitability, and ease in procurement have attracted several players into the retail market. Intense competition may continue to constrain scalability, pricing power and profitability of the company

Geographical concentration risk

Sumeet group mostly derives its revenue from Chhattisgarh, with Sumeet Synfab's presence in over 30 different locations in Chhattisgarh, having around 31 stores all over Chhattisgarh, while Sumeet Gems and Jewellery's have around 5 stores in Chhattisgarh, 1 in Orissa and 1 in Mumbai. Further, Shubham K-Mart have a total of 14 stores in Chhattisgarh at present. High reliance on Chhattisgarh market exposes the group to even a slight regional downturn in the economy

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has combined the financial risk profiles of Shubham K-Mart Private Limited (SKMPL), Sumeet Synfab India Private Limited (SSIPL), and Sumeet Gems and Jewellers Private Limited (SGJPL) as these entities run under a common



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management have strong operational and financial linkages and cash flow fungibility. All the three companies combined referred as Sumeet Group hereafter. (List of companies considered for consolidated analysis is given below in **Annexure 3**)

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity Position: Adequate

Sumeet Group's liquidity profile is expected to remain adequate, as marked by its satisfactory cash accruals vis-a-vis its debt repayment obligations. The company has generated gross cash accruals of ~Rs.26 crore in FY21 (prov.) against its immediate debt repayment obligation of Rs.5.03 crore and is expected to earn cash accruals in the range of ~Rs.43-65 crore vis-à-vis its debt repayment obligation in the range of Rs.5-12 crore during FY22-24. Further, the group also has sufficient gearing headroom backed by its comfortable capital structure.

About the company and the Group

Sumeet group, established by Late Shri Bhanwar Lal Ji Kankaria in 1984, is now managed by second and third generations of the Kankaria family. Sumeet Group is one of the reputed and oldest business houses of Raipur, Chhattisgarh, with its presence both in the wholesale and retail segment through its various shops across the state.

Sumeet Group started its journey in the name & style of 'Sumeet Fabrics', 'Sumeet & Co.' & 'Sumeet Baijnathpara'. In the year 2000, by consolidating the businesses, the promoters incorporated a private limited company, Sumeet Synfab India Private Limited (SSIPL). It is among the largest traders of textiles in Chhattisgarh, offering apparels including men's wear, women's wear, kids wear, Cotton Outfits, Traditional wear, Handlooms, Bridal wear, etc. Thereafter, it diversified its operations through Sumeet Gems and Jewellers Private Limited (SGJPL) in 2005, engaged in manufacturing of jewellery as well as trading of retail gold, silver, diamond, and other precious metals. SGJPL is also engaged in trading of bullion jewellery. Further in 2019, the group started Super Market in partnership firm, M/s Shubham K-Mart, which was later transferred to Shubham K-Mart Private Limited (SKMPL) with effect from March 2020. SKMPL have started its new line of business since then, offering products like grocery items, dairy, crockery, Toys, Plastics etc. The group as a whole has 50 showrooms



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and `business of all the companies are mostly operated from single roof through its showrooms.

Financials (Combined)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Combined	Combined
Total Operating Income	856.74	1263.13
EBITDA	39.51	47.58
PAT	16.02	18.56
Total Debt	211.89	225.99
Tangible Net worth	84.38	110.31
Adjusted Tangible Net worth	114.95	149.55
EBITDA Margin (%)	4.61	3.77
PAT Margin (%)	1.86	1.47
Overall Gearing Ratio (x)	1.58	1.50
Interest Coverage Ratio(x)	2.15	2.52

*Classification as per Infomerics' standards.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	0.71	72.86
EBITDA	0.07	2.56
PAT	0.04	0.37
Total Debt	11.92	17.73
Tangible Net worth	3.25	10.47
Adjusted Tangible Net worth	3.25	18.47
EBITDA Margin (%)	9.94	3.51
PAT Margin (%)	3.32	0.51
Overall Gearing Ratio (x)	3.67	0.96
Interest Coverage Ratio (x)	0.20	1.24

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	28.00	IVR BBB+; Stable	-	-	-



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Sl. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
2.	Term Loan	Long Term	9.00	IVR BBB+; Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Riddham Agarwal	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: riddham.agarwal@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Cash Credit	-	-	-	28.00	IVR BBB+; Stable



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Term Loan	-	-	October 2026	9.00	IVR BBB+; Stable
Total				37.00	

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Shubham-KMart-lenders-oct21.pdf>

Annexure 3: List of companies considered for consolidated analysis is given below,

Sl. No.	Name of the entities	Consolidation Approach
1.	Sumeet Synfab India Private Limited	Full Consolidation
2.	Sumeet Gems and Jewellers Private Limited	Full Consolidation
3.	Shubham K-Mart Private Limited	Full Consolidation

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Term Loan	Simple

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.