

Om Associates

March 21, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	20.00	[ICRA]BB- (Stable); Assigned
Total	20.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 20.00-crore¹ cash-credit facilities of Om Associates (OA)². The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into account the long experience of the promoters in the distribution business, and sole authorised distributorship of P&G, Reliance Jio, InFocus, and S.C. Johnson in Odisha. ICRA also notes the favourable demand outlook for the FMCG and mobile phone industry in India, driven by a widening middle class and rising disposable income, which provides healthy revenue growth potential.

The rating, however, is constrained by relatively modest scale of operations and weak financial profile as reflected by low cash accruals, aggressive capital structure and subdued coverage indicators. The rating also considers that the margin structure is decided by the principal coupled with low value-additive nature of business, and the competition faced from distributors of other players and modern trade channels, that keep a check on profitability. The rating further incorporates the risk associated with the entity's status as a partnership firm, including the risk of capital withdrawal by the partners.

In ICRA's opinion, OA's ability to scale up operations while improving its profitability, capital structure, and coverage indicators, would remain key rating sensitivities, going forward. Any substantial capital withdrawal could adversely impact the liquidity position and capital structure of the firm.

Outlook: Stable

ICRA believes that OA will continue to benefit from the long experience of the promoters and the favourable demand outlook of the FMCG sector. The outlook may be revised to Positive if the firm is able to scale up its operations while improving its profitability, capital structure and coverage indicators. The outlook may be revised to Negative if there is any substantial capital withdrawal, which could adversely impact the liquidity position and capital structure of the firm.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Long experience of the promoters - The firm is promoted by the Bhubaneswar-based Hans family, who has an experience of around 15 years in the distribution business.

Sole authorised distributor of four principals in Odisha - The firm is the sole authorised distributor of P&G, Reliance Jio, InFocus, and S. C. Johnson in Odisha. OA's association with P&G, one of the leading FMCG players, also provides comfort to the operational risk profile of the firm.

Favourable demand outlook for the FMCG and mobile phone industry - India's FMCG and mobile phone industry has grown at a healthy rate over the last few years, driven by favourable demographic profile, rising income level, changing spending pattern, increased retail penetration to Tier-II and Tier-III cities and increasing consumerism. The long-term fundamental drivers for demand growth for FMCG and mobile phones remain favourable.

Credit challenges

Relatively modest scale of operations - The firm's scale of operations remained modest, notwithstanding a modest growth witnessed during the past few years.

Trading nature of operations results in low profit margins - The operating profit margin of distributors, including OA, is inherently low due to the nature of the industry, which is characterised by high volume, low-margin business. Besides, the scope of margin expansion remains limited as the margins are regulated by the principal to a large extent.

Weak financial profile characterised by an aggressive capital structure and subdued coverage indicators- Historically, the cash accruals of the firm have remained low, given the modest scale of operations and low profit margins. The capital structure remained aggressive, as depicted by a gearing of 4.31 times as on March 31, 2017. High debt level, coupled with low profitability kept the coverage indicators depressed.

Intense competition in the industry - The firm faces stiff competition from distributors of other players and modern trade channels, which keeps a check on its profitability.

Risks associated with the entity's status as a partnership firm - OA's legal status as a partnership firm gives rise to the risk of withdrawal of capital by the partners, which might impact its capital structure and the liquidity position.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Established in 2002, Om Associates is the sole authorised distributor of Procter & Gamble Hygiene & Health Care Limited (P&G), Reliance Jio Infocomm Limited (Reliance Jio), InFocus Corporation (InFocus), and S. C. Johnson Products Private Limited (S. C. Johnson) in Odisha. The firm sells P&G's and S. C. Johnson's fast-moving consumer goods, Reliance Jio's mobile handsets, devices, SIM cards and recharge vouchers, and InFocus' mobile handsets. The firm is promoted by the Bhubaneswar-based Hans family, which have experience of more than 15 years in the distribution business.

Key financial indicators

	FY2016 Audited	FY2017 Audited
Operating Income (Rs. crore)	235.89	273.11
PAT (Rs. crore)	0.27	0.40
OPBDIT/ OI (%)	1.07%	1.23%
RoCE (%)	15.82%	15.28%
Total Debt/ TNW (times)	2.22	4.31
Total Debt/ OPBDIT (times)	5.30	6.22
Interest Coverage (times)	1.30	1.19
NWC/ OI (%)	5%	5%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) March 31, 2017	Date & Rating March 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Cash Credit	Long Term	20.00	-	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit – 1	-	-	-	15.00	[ICRA]BB-(Stable)
NA	Cash Credit – 2	-	-	-	5.00	[ICRA]BB-(Stable)

Source: Om Associates

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