

Desai Distributors

January 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based – Cash Credit	17.50	17.50	[ICRA]BB-(Stable) reaffirmed;
Total	17.50	17.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 17.50 crore¹ cash credit limits of Desai Distributors (DD)². The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of rating continues to remain constrained by the average financial risk profile of the firm as characterised by moderation in operating margins, deterioration in capital structure and modest coverage indicators. The rating is also constrained by DD's stretched liquidity profile as reflected by high utilisation of its working capital limits given the working capital intensive nature of operations. The rating also takes into account the increasing competition from modern trade and distributors of other established Fast Moving Consumer Goods (FMCG) players. ICRA also notes that as DD is a partnership firm, any significant withdrawals from the capital account by the partners could adversely affect its net worth and thereby its capital structure.

The rating, however, continues to favourably take into account association of the firm with Hindustan Unilever Limited (HUL), being a leading FMCG player and extensive experience of the promoters in the FMCG distribution business. .

Outlook: Stable

ICRA believes that DD will continue to benefit from its association with HUL and experience of the partners in FMCG distribution. The outlook may be revised to Positive in case of substantial improvement in operating profitability, capital structure and liquidity profile. The outlook may be revised to negative in case of further deterioration in operating profitability or capital structure.

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.

Credit strengths

Extensive experience of promoter in FMCG distribution - The firm was promoted by Desai family in 1996 and since then it has distributorship of HUL's products depicting an established track record.

Stable demand prospect being a distributor of HUL - HUL is India's largest FMCG company with over 35 brands spanning 20 distinct categories. Further, many of the brands of HUL are market leaders in their respective segment, which provide sustainable demand for HUL's products and thus will support growth for DD going forward.

Credit weaknesses

Average financial risk profile - DD's operating income has witnessed ~41% growth from Rs. 73.61 crore in FY2016 to Rs. 103.43 crore in FY2017 with increase in distribution area coupled with steady demand for HUL's products. The operating profitability continues to remain low owing to low value added business operations and it further moderated to 2.65% in FY2017 from 3.23% in FY2016. Total debt increased from Rs. 13.95 crore as on March 31, 2016 to Rs. 18.14 crore as on March 31, 2017 with increase in working capital debt to support the increase in scale. Furthermore, owing to low accruals and capital withdrawal of Rs. 0.25 crore, the net-worth remained low leading to increase in gearing from 2.55 times as on March 31, 2016 to 3.31 times as on March 31, 2017. The coverage indicators continues to remained low.

Intense competition - Within a 40 sq km of area across Vadodara (Gujarat), DD remains exclusive distributor for selling HUL's products. However, it faces stiff competition from modern trade and distributors of other FMCG players. Further, any change in the distribution and price/ margin structure or entry of new distributors of other established FMCG players may adversely affect its business.

Risks inherent in partnership firm – Since DD is a partnership concern, any substantial capital withdrawal could impact the net-worth and thereby its capital structure.

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 1996 as a partnership firm by the Desai Family, Desai Distributors (DD) is engaged in distributorship of Hindustan Unilever Limited (HUL) products and Vodafone SIM cards/recharges in Vadodara, Gujarat. The firm is a distributor of HUL's products in Vadodara district of Gujarat, supplying to ~5000 retailers covering 40 Sq km area across Vadodara.

During 9M FY2018 (provisional financials), DD reported an operating income of Rs. 96.37 crore and operating margins of 3.91%.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	73.61	103.43
PAT (Rs. crore)	0.43	0.51
OPBDIT/ OI (%)	3.23%	2.65%
RoCE (%)	12.43%	12.55%
Total Debt/ TNW (times)	2.55	3.31
Total Debt/ OPBDIT (times)	5.87	6.61
Interest coverage (times)	1.25	1.25
NWC/ OI (%)	23%	19%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					June 2016	-	-
1 Cash Credit	Long Term	17.50	-	[ICRA]BB- (Stable)	[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	NA	NA	NA	17.50	[ICRA]BB- (Stable)

Source: Desai Distributors

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