

P N Rao

April 05, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| Fund based - Working Capital Facilities | 6.00 | 6.00 | [ICRA]BBB- (Stable); reaffirmed |
| Fund based - Term Loan | 2.70 | 2.70 | [ICRA]BBB- (Stable); reaffirmed |
| Total | 8.70 | 8.70 | |

*Instrument details provided in Annexure 1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs. 8.70 crore¹ bank facilities of P N Rao². The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation continues to factor in the long established presence of the firm in the textile retail business for the past nine decades, and the strong brand recognition built by it in Bangalore. The rating also takes into account the strong financial profile of the firm as reflected by a comfortable capital structure and strong coverage indicators during FY2017. Despite the stagnation in sales witnessed by the firm in FY2017 and the current fiscal, the rating derives comfort the expected growth in FY2019 and going forward supported by addition of a new store in Hyderabad and improving sales traction in existing stores. The rating, however, continues to be constrained by the small scale of operations of the firm restricting operational and financial flexibility to an extent, and the firm's high working capital intensity of operations. ICRA takes into account the firm's vulnerability to adverse economic conditions like weakness in consumer spending; the intense competition in the suiting and shirting segment marked by presence of many regional/national branded and unbranded players which puts pressure on the pricing flexibility of the firm; and the inherent risks associated with a partnership firm such as limited ability to raise equity capital, risk of capital withdrawal, among others.

Outlook: Stable

The stable outlook reflects ICRA's expectations that the firm will continue to benefit from the strong brand presence of the firm and its established presence in the branded ready-mades and customised suits segment. The outlook may be revised to 'Positive' if there is substantial growth in revenue and profitability, and if the liquidity position improves by way of reduction in inventory levels. The outlook may be revised to 'Negative' if the firm witnesses substantial dip in revenues and profitability, or if there is a stretch in the working capital cycle weakening the liquidity.

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 established presence in textile retail business; strong brand recognition in Bangalore – From having commenced its first store on MG Road in Bangalore in 1923, the firm has grown over the decades and has an established presence in the city. The firm is among the few players catering only to the occasional wear segment, especially suits and related accessories, in the city. Through its expertise developed over the years, the firm has earned strong brand recognition in Bangalore in its segment.

Financial profile characterized by comfortable capital structure and healthy coverage indicators – Over the years, the capital structure of the firm has remained comfortable. The gearing of the firm stood at 0.57 times as on March 31, 2017. While the drop in profitability and marginally higher debt levels and interest expenses impacted the coverage indicators in FY2017, they continue to remain healthy.

Credit challenges

Small scale of operations; drop in profitability in FY2017 – While P N Rao has been in the business for many decades, the operating income of the firm remains modest despite the growth in revenues witnessed over the last few years. This restricts the economies of scale benefits enjoyed by bigger players. With only a modest growth witnessed in FY2017 and increase in expenses, the operating profitability of the firm registered a decline in FY2017 to 11.29%. In line with the drop in operating profitability and due to higher interest expenses, the net profitability also witnessed a decline.

High working capital intensity on account of the high inventory levels to be maintained – The working capital intensity of the firm as measured by NWC/OI has remained high over the years due to high inventory requirements. It witnessed an increase from 27% as on March 31, 2016 to 33% as on March 31, 2017 owing to increase in inventory levels. However, the firm has undertaken initiatives like central warehouse mechanism and the introduction of Enterprise Resource Planning system to limit the inventory holdings which has resulted in low inventory levels in FY2018.

Inherent risk associated with a partnership firm – Since P N Rao is a partnership firm, it is exposed to the inherent risks associated with its constitution. Some of these risks include the risk of capital withdrawal, limited ability to raise capital etc.

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:

P N Rao was incorporated in the year 1923 by Shri P.N.Rao. The partnership firm retails in branded suits, shirts and accessories. It is one of the largest suit selling stores in south India. P N Rao group is a leading dealer in textiles, readymade garments and tailor in suits and other accessories. Having started its flagship store on MG Road in Bangalore, the firm has grown consistently over the years with five stores in Bangalore and two in Chennai. Another store is expected to be opened in Hyderabad in FY2019.

Key financial indicators (audited)

| | FY 2016 | FY 2017 |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 41.89 | 43.27 |
| PAT (Rs. crore) | 3.35 | 2.04 |
| OPBDIT/ OI (%) | 15.13% | 11.29% |
| RoCE (%) | 34.39% | 21.71% |
| Total Debt/ TNW (times) | 0.40 | 0.57 |
| Total Debt/ OPBDIT (times) | 0.69 | 1.39 |
| Interest coverage (times) | 6.62 | 4.20 |
| NWC/ OI (%) | 27% | 33% |

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

| | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | | |
|---|-------------------------|-----------|--------------------------|----------------------------------------------------|---------------------------------------------------|-------------------------|-------------------------------------|----------------------------------|
| | Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding as on March 31, 2017 (Rs Crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
| 1 | Cash Credit | Long Term | 6.00 | | April 2018 [ICRA]BBB-(Stable) | - | December 2016 [ICRA]BBB-(Stable) | March 2016 [ICRA]BBB-(Stable) |
| 2 | Term Loan | Long Term | 2.70 | 1.29 | [ICRA]BBB-(Stable) | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(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 | 6.00 | [ICRA]BBB- (Stable) |
| NA | Term Loan | FY2015 | NA | FY2020 | 2.70 | [ICRA]BBB- (Stable) |

Source: P N Rao

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