Gangar Opticians Private Limited

April 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund-based TL	09.00	09.00	[ICRA]BB+@; reaffirmed and continues to be on rating watch with negative implications
Long-Term – Unallocated	03.00	03.00	[ICRA]BB+@; reaffirmed and continues to be on rating watch with negative implications
Total	**12.00**	**12.00**	

*Instrument details are provided in Annexure-1

Rationale

ICRA had earlier placed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus) assigned to GOPL's bank facilities on rating watch with negative implications on February 25, 2019. Mr. Jayantilal Gangar, one of the promoters of Gangar Opticians Private Limited (GOPL or the company) had filed a petition against the company for him and his son, Mr. Pragnesh Gangar of some of their rights in GOPL's operations. Subsequent to that, there has been no major development in this regard. ICRA will continue to monitor developments in this regard and would evaluate the impact of the same on the business profile of Gangar Opticians Private Limited.

The rating continues to factor in the long experience of GOPL's promoters in the eyecare business and established brand presence in major cities/towns in the western region through 75 retail outlets as on December 31, 2018, which ensures high market penetration in its operational regions.

The rating is, however, constrained by the GOPL's low profitability over the past three fiscals on account of thin profitability of its newly opened stores and few existing stores. Evidently, the operating profit margin of the company has remained low at 6.59% in 9MFY2019. Additionally, the company's high interest and depreciation costs led to low net profit margins of 0.17% in 9MFY2019. The rating also considers working capital-intensive nature of operations given the high inventory levels and the need to incur regular capex for establishing new retail outlets in a bid to expand its geographical reach. Consequently, capital structure has remained leveraged with a gearing of 1.90 times as on December 31, 2018. Low profitability and leveraged capital structure has resulted in deterioration of debt coverage indicators as reflected from net cash accruals/total debt and total debt/OPBDITA of 15% and 3.28 times in 9MFY2019. ICRA also notes GOPL's regional concentration risks as the major portion of its revenue is derived from outlets in Mumbai; although recent diversification in other cities of Maharashtra and Gujarat acts as a mitigant.

Outlook: Not applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in the eye-wear retail sector - Gangar Opticians Pvt. Ltd. (GOPL) is a family run business established in the year 1977 as a partnership firm. Later in the year 2000, the partnership status was converted into a private limited company. It is managed by the members of Gangar family, who collectively have an experience of more than two decades in the eyewear retail industry.

Established brand name with presence in major cities/towns of western India - GOPL is operating under the brand name of 'Gangar EyeNation'. The products are sold directly to the customers through its 75 retail outlets spread across Gujarat, Mumbai and its suburbs and rest of Maharashtra.

Credit challenges

Low profitability over the past three fiscals - The operating profit margin of the company has declined from 9.10% in FY2016 to 6.64% in FY2017 and further to 3.96% in FY2018 on account of thin profitability from the existing stores and newly opened stores in Maharashtra and Gujarat during FY2017 and FY2018. The overheads like lease rentals and employee expenses are high for these retail outlets. High depreciation and interest expenses have further pressurized the net profit margins and the company suffered a net loss of Rs. 1.97 crore in FY2018. Although the profitability has witnessed marginal improvement in 9MFY2019, it continues to remain low.

Leveraged capital structure and weak debt coverage indicators in 9MFY2019 - The total debt of the company stood at Rs 29.04 crore as on December 31, 2018 on account of debt funded capex undertaken in the past for establishing new retail outlets. Consequently, the capital structure was leveraged with gearing at 1.90 times as on December 31, 2018. Thin profitability and leveraged capital structure has resulted in weak debt coverage indicators as reflected from net cash accruals/total debt and total debt/OPBDITA of 15% and 3.68 times in 9MFY2019.

Majority of the revenues derived from retail outlets in Mumbai, resulting in regional concentration of sales to an extent - GOPL sells eyewear and related accessories through its 75 retail outlets spread across Gujarat, Maharashtra and Goa. However, majority of its revenue is derived from stores in Mumbai and its suburbs. GOPL derived more than 70% of its revenues from the retail outlets in Mumbai in 9MFY2019, resulting in regional sales concentration. However, ICRA notes that GOPL is trying to expand its retail chain in other smaller towns of Maharashtra and Goa.

High competitive intensity in the eye-wear retail industry limits the pricing flexibility - GOPL faces strong competition from the unorganised as well as organised players in the eyewear industry. The Indian eyewear market is fragmented and flooded with local and regional eyewear players, which account for the majority of eyewear sales in the country. The competition in the recent past has also been intensified by new entrants from the e-commerce space, where the pricing is generally aggressive.

Liquidity Position:

GOPL had external term loans of Rs. 7.34 Crore on its books as on December 31, 2018; which is scheduled to be repaid fully by September 2024. GOPL's cash flow from operations (FFO) have remained positive during the period under review on account of moderate profitability and support from creditors resulting in limited incremental working capital requirements. With GBPL's business expected to chart a modest growth trajectory in the medium term, its FFO is estimated to remain positive. GBPL has limited cushion available in the form of undrawn working capital limits and liquidity position has remain stretched given the low levels of cash accruals in 9MFY2019.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Promoted by the Mumbai-based Gangar family, GOPL was established as a partnership firm in 1977. It was converted into a private limited company in 2000. Gangar Opticians Private Limited sells eyecare and eyewear products like lenses, frames, sunglasses and other related accessories through its retail outlets across various cities/towns in Maharashtra and Gujarat. The company's corporate office is located at Sion in Mumbai, while its glass assembling unit is situated at Prabhadevi, Mumbai.

As per provisionals, the company reported a net profit of Rs. 0.15 crore on an operating income of Rs. 89.83 crore in 9MFY2019 as against a net loss of Rs. 1.97 crore on an operating income of Rs. 121.09 crore in FY2018.

Key financial indicators (audited)

	FY2017	FY2018	9MFY2019
Operating Income (Rs. crore)	114.46	121.09	89.83
PAT (Rs. crore)	1.31	-1.97	0.15
OPBDIT/OI (%)	6.64%	3.96%	6.59%
RoCE (%)	12.01%	1.95%	8.35%
Total Debt/TNW (times)	1.48	1.92	1.90
Total Debt/OPBDIT (times)	3.32	6.07	3.68
Interest coverage (times)	2.90	1.52	2.26

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)						Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Apr-19	Date & Rating Feb-19	Date & Rating Oct-18	Date & Rating in FY2018 Apr-17	Date & Rating in FY2017 -	Date & Rating in FY2016 Mar-16
1	Cash Credit	Long Term	9.00	-	[ICRA]BB+@	[ICRA]BB+ (@	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	3.00	-	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)

@- Under rating watch with negative implications

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	09.00	[ICRA]BB+@
NA	Term Loan	January 2018	11.50%	September 2024	03.00	[ICRA]BB+@

@- under rating watch with negative implications

Source: Gangar Opticians Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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