Gangar Opticians Private Limited

May 03, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based CC	09.00	09.00	[ICRA]BB+@; Outstanding
Long-term - Fund-based TL	03.00	09.00	[ICRA]BB+@; assigned/Outstanding
Total	**12.00**	**18.00**	

**Instrument details are provided in Annexure-1*

@: Under rating Watch with Negative Implications

Rationale

ICRA had placed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus) assigned to Gangar Opticians Private Limited's (GOPL's) bank facilities on rating Watch with Negative Implications on February 25, 2019. Mr. Jayantilal Gangar, one of the company's promoters, filed a petition against the company for him and his son, Mr. Pragnesh Gangar, concerning 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 case and would evaluate the impact of the same on GOPL's business profile.

The rating continues to factor in the extensive experience of GOPL's promoters in the eye care business, and the company's established brand presence at major cities/towns in the western region (through 75 retail outlets as on December 31, 2018), ensuring high market penetration in its operational regions.

The rating is, however, constrained by GOPL's low profitability over the last three fiscals, on account of thin profitability of its new stores and few existing stores. Evidently, the company's operating profit margin (OPM) remained low at 6.59% in 9M FY2019. Additionally, the company's high interest and depreciation costs led to the low net profit margin (NPM) of 0.17% in 9M FY2019. The rating also considers the working capital-intensive nature of operations, given the high inventory levels and the need to incur regular capex for establishing new retail outlets (to expand its geographical reach). Consequently, the capital structure remained leveraged with a gearing of 1.90 times as on December 31, 2018. The low profitability and the leveraged capital structure deteriorated the debt coverage indicators, as reflected in net cash accruals/total debt and total debt/OPBDIT of 15% and 3.68 times, respectively, in 9M FY2019. ICRA also notes GOPL's regional concentration risks as the major portion of its revenue is derived from the outlets in Mumbai; although, its recent diversification in other cities of Maharashtra and Gujarat mitigates the risk.

Outlook: Not applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in eyewear retail sector - GOPL is a family-run business, established in 1977 as a partnership firm. Later in 2000, the firm was converted into a private limited company. It is managed by the Gangar family, who collectively have an experience of over two decades in the eyewear retail industry.

Established brand in major western Indian cities - GOPL operates under the brand name of Gangar Eyenation. The products are sold directly to the customers through its 75 retail outlets spread across Gujarat, Mumbai (including its suburbs), and the rest of Maharashtra.

Credit challenges

Low profitability over last three fiscals - The company's OPM declined from 9.10% in FY2016 to 6.64% in FY2017 and further to 3.96% in FY2018, on account of thin profitability from its existing as well as new stores in Maharashtra and Gujarat in FY2017 and FY2018. The overheads, like lease rentals and employee expenses, are high for these retail outlets. The high depreciation and interest expenses further pressurised the company's NPM, leading to a net loss of Rs. 1.97 crore in FY2018. Although the profitability witnessed a marginal improvement in 9M FY2019, it remained low.

Leveraged capital structure; weak debt coverage indicators - The company's total debt stood at Rs. 29.04 crore as on December 31, 2018 on account of its debt-funded capex undertaken in the past to establish retail outlets. Consequently, the capital structure was leveraged with a gearing of 1.90 times as on December 31, 2018. The thin profitability and the leveraged capital structure resulted in weak debt coverage indicators, as reflected in net cash accruals/total debt and total debt/OPBDIT of 15% and 3.68 times, respectively, in 9M FY2019.

Regional sales concentration in Mumbai - 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 the stores in Mumbai (including its suburbs). GOPL derived more than 70% of its revenues from the retail outlets in Mumbai in 9M FY2019, resulting in regional sales concentration to an extent. However, ICRA notes that GOPL is trying to expand its retail chain to other smaller towns of Maharashtra and Goa.

Intense competition in eyewear retail industry limits pricing flexibility - GOPL faces intense competition from unorganised as well as organised players in the eyewear industry. The Indian eyewear market is fragmented and flooded with local and regional players, which account for majority of the eyewear sales. The competition in the recent past was also 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 are scheduled to be fully repaid by September 2024. GOPL's cash flow from operations (FFO) remained positive during the period under review on account of its moderate profitability and support from creditors, resulting in limited incremental working capital requirements. With the business expected to chart a modest growth trajectory in the medium term, the FFO is estimated to remain positive. GOPL has limited cushion available in the form of undrawn working capital limits, and its liquidity position remains stretched given the low level of cash accruals in 9M FY2019.

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 and converted into a private limited company in 2000. The company sells eye care 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 provisional results, the company reported a net profit of Rs. 0.15 crore on an operating income (OI) of Rs. 89.83 crore in 9M FY2019, against a net loss of Rs. 1.97 crore on an OI 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 (FY2020)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					May-19	Apr-19	Feb-19	Oct-18	Apr-17	-
1	Cash Credit	Long Term	9.00	-	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+ @	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	Long Term	9.00	7.34	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-

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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	09.00	[ICRA]BB+@

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Source: Gangar Opticians Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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