March 16, 2020

Gangar Opticians Private Limited: Rating continues to remain under watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based CC	9.00	9.00	[ICRA]BB+@; continues to remain under rating watch with negative implications
Long-term - Fund-based TL	9.00	9.00	[ICRA]BB+@; continues to remain under rating watch with negative implications
Total	**18.00**	**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 its 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 October 31, 2019), ensuring high market penetration in its operational regions. The rating favourably notes GOPL's adequate liquidity, supported by positive fund flow from operations over the period under study and availability of unutilised working capital limits as well as its moderate scale of operations with an operating income (OI) of Rs. 120.37 crore in FY2019. However, ICRA notes that the top line has remained stagnant over the last two years due to closure of a few retail outlets and the nascent stage of operations of the newly opened ones.

The rating is, however, constrained by GOPL's volatile profitability over the last three fiscals, which is a function of the profitability metrics of its retail outlets. However, ICRA notes that, in FY2019, the company undertook several costs cutting initiatives leading to an improvement in its operating profitability, which increased to 8.13% in FY2019 from 3.96% in FY2018. This resulted in recovery from net losses and improved cash accruals in FY2019. The rating also considers the working capital-intensive nature of operations, given the need to maintain inventory at its retail outlets and the need to incur regular capex for establishing new retail outlets to expand its geographical reach on account of high regional concentration of sales. Consequently, the capital structure remained leveraged with a gearing of 1.44 times as on March 31, 2019. Further, due to high reliance on creditor funding, the total outside liability to net worth (TOL/TNW) remained high at 2.57 times as on March 31, 2019.The rating factors in the vulnerability of GOPL's operations to changes in fashion trends and consumer preferences, coupled with strong competition from unorganised as well as organised players and online portals.

Key rating drivers and their description

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 name 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.

Moderate scale of operations; availability of unutilised working capital limits provides liquidity comfort – GOPL's scale of operations has remained moderate over the years with an OI of Rs. 121.09 crore and Rs. 120.37 crore registered in FY2018 and FY2019, respectively. Further, the company's liquidity position remained comfortable, supported by availability of unutilised working capital limits.

Credit challenges

Volatile profitability during last three fiscals; recovery from net losses and improved cash accruals in FY2019 – The company's profitability has been volatile with the OPM declining to 6.64% in FY2017 and 3.96% in FY2018 from 9.10% in FY2016, on account of thin profitability from few uneconomical existing as well as new stores in Maharashtra and Gujarat, which were opened in FY2017 and FY2018. The overheads, such as lease rentals and employee expenses, were high for these retail outlets, which constrained its profitability. However, due to cost-cutting initiatives, GOPL was able to reduce its costs, leading to an improvement in its operating profitability to 8.13% in FY2019. Due to improved operating profits, the net profit margins increased to 1.70% in FY2019 from net losses of -1.63% in FY2018 and the net cash accruals stood at Rs. 6.32 crore, higher than Rs. 1.85 crore in FY2018. Similarly, the RoCE stood at 12.99% in FY2019.

Regional sales concentration with Mumbai contributing to more than 70% of revenues – GOPL sells eyewear and related accessories through its 75 retail outlets spread across Maharashtra, Gujarat and Goa. However, a predominant 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 FY2019, resulting in regional sales concentration. However, ICRA notes that the company is trying to expand its retail chain to other smaller towns of Maharashtra and Goa.

Leveraged capital structure and high TOL/ TNW due to high creditors – The company's total debt stood at Rs. 24.69 crore as on March 31, 2019 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 1.44 times as on March 31, 2019.

Further, due to high reliance on creditors, the TOL/TNW remained high at 2.57 times as on March 31, 2019. However, ICRA notes that the reliance on external working capital borrowings have declined on a YoY basis.

Risk of change in fashion trends and consumer preferences – The demand for the company's product remains exposed to changes in fashion trends and consumer preferences. Keeping up with changing preferences is critical for faster turnaround of inventory, improving sales realisation and for increase in scale of operations from the current levels.

Industry characterised by strong competition from unorganised as well as organised players and online portals – 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 a major share of the eyewear sales. The competition in the recent past was intensified by new entrants from the e-commerce space, where the pricing is generally aggressive.

Liquidity position: Adequate

GOPL's liquidity position is **adequate**, given the cushion available in the form of undrawn working capital limits and improvement in profitability in FY2019. It had external term loans of Rs. 7.12 crore on its books as on March 31, 2019, which are scheduled to be fully repaid by September 2024. The company has preference shares worth Rs. 6.99 crore on its books as on March 31, 2019, which are due for redemption in 2027.

GOPL reported a cash balance of Rs. 1.32 crore as on March 31, 2019. The company's fund 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, the FFO is estimated to remain positive in the medium term.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the company is able to register an improvement and sustainability in profitability margins, increase its scale of operations and reduce its inventory levels on a sustained basis.

Negative triggers – The ratings may be downgraded if GOPL's profitability levels deteriorate, along with declining scale of operations, its inventory levels increase further and if there is any adverse impact of outcome of the ongoing NCLT case on the company's operations.

Analytical approach

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

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 eyecare and eyewear products (like lenses, frames, sunglasses and other related accessories) through its retail outlets across various cities/towns in Maharashtra and Gujarat. Its corporate office is located in Sion in Mumbai, while its glass assembling unit is situated in Prabhadevi, Mumbai.

GOPL registered a net profit of Rs. 2.04 crore on an OI of Rs.120.37 crore in FY2019, against a net loss of Rs.1.97 crore on an OI of Rs. 121.09 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	121.09	120.37
PAT (Rs. crore)	-1.97	2.04
OPBDIT/ OI (%)	3.96%	8.13%
RoCE (%)	1.95%	12.99%
Total Outside Liabilities/Tangible Net Worth (times)	3.57	2.57
Total Debt/ OPBDIT (times)	6.07	2.52
Interest Coverage (times)	1.52	2.97
DSCR	1.24	2.04

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on CapitalEmployed
Source: Financial statements of GOPLand ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)						Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	Rating	Rating	FY2019		FY2018	FY2017
					16-Mar-2020	03-May-2019	04-Apr-2019	25-Feb-2019	31-Oct-2018	24-Apr-2017	-
1	Fund-based Cash Credit	Long-Term	9.00	-	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-
2	Fund-based Term Loan	Long-Term	9.00	7.34	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+@	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-

Amount in Rs. crore

@: 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	9.00	[ICRA]BB+@
NA	Term Loan	January 2018	11.50%	September 2024	9.00	[ICRA]BB+@

Source: GOPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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