Brickwork Ratings
for Informed Investment Decisions

Rating Rationale

Brickwork Ratings has assigned 'BWR BBB-' & 'BWR A3' rating for Bank Loan Facilities aggregating to ₹ 10.50 Cr of Arihant Retails Pvt. Ltd.

Brickwork Ratings has assigned the following **Ratings**[1] for Bank Credit facilities availed from *IndusInd Bank* amounting to Rs.10.50 Cr by Arihant Retails Pvt. Ltd. *(ARPL or the 'Company')*:-

Facility	Amount (₹ Cr)	Tenure	Rating
Fund Based			
Cash Credit	**7.50**	**Long Term**	**BWR BBB-** (Pronounced as BWR Triple B minus) **(Outlook: Stable)**
Credit - LACR	**3.00**	**Short Term**	**BWR A3** (Pronounced as BWR A Three)
Total	**10.50**	**INR Ten Crores and Fifty Lakhs only**	

BWR has principally relied upon the audited financial results of FY12 – FY14, provisional FY15, projected financial results of FY16 – FY17 and publicly available information and information/clarification provided by the company's management.

The rating has factored, *inter alia*, long track record of the company since 1965; extensive experienced and qualified management of over two decades in the garment retailing and allied industry; locational advantage of the showrooms in the retail hub of the city; the rating also factors the moderate financial risk profile as indicated by reasonable net worth considering unsecured loans from the promoters, incremental revenues of over 25% Y-O-Y and efficient cash conversion cycle owing to the characteristic of the business.

The Rating is however, constrained by high gearing, however it is being offset after considering the contribution of the promoters as an unsecured loan in the business; modest profit margins which is an inherent characteristic of the retailing business; intense competition from the players in the vicinity, owing to the fragmented nature of its business.

Background:

Arihant Retails Pvt. Ltd. was incorporated in 1996 by Mr. Hastimal Surana at Chennai which was initially established by his father Late Shri Chainmal Surana in 1965 and then it was subsequently taken over by Mr. Vishal Surana from his father Mr. Hastimal Surana in 2003, after completing his Post Graduation degree from reputed institute around the globe.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

The company is engaged in trading /retailing of garments, textiles, readymade, furnishing and upholstery.

It has 10 showrooms in total, which constitutes 4 showrooms under *Arihant*, 4 showrooms under the brand *Hotmale (for men*) and 2 showrooms under the brand *MAA (for kids and mothers),* in and around Chennai. ARPL also operates on a franchisee business model wherein it has three franchisee, out of which one is of *VAN HEUSEN* (an EBO of Madura Garments Group) and the other two are of *Kewal Kiran Clothing Limited* which deals with brands such as *Killer, Lawman, Inrigriti and Easies*.

The products are procured from the garment wholesalers based majorly in Chennai, Bangalore, Kolkata, and Delhi.

Ownership & Management Profile:
ARPL is a private limited company whereby Mr. Vishal Surana, is holding majority of the stake of 52.19% of ownership and rest is being held by other associates. The company is managed by Mr. Vishal Surana and assisted by other three key personnel namely, Mr. Rajesh Agarwal, Mr. Raj Choradia and Mr. Md. Ali.

Mr. Vishal Surana is the Managing Director of the company, who is a Post Graduate from S. P. Jain Institute of Management, Mumbai and Harvard University, Boston, having an experience of 15 years in the garment retailing industry and he is also associated with various related trade association.

The rest of the personnel are the prime member of the company who are experienced professional in the garment and allied industry.

<u>Financial Performance:</u>
The company has achieved Rs. 96.96 Cr of net revenue in FY 14 with an increment of ~25% Y-O-Y with a net profit of Rs. 1.12 Cr. The tangible net worth of the firm stood at Rs. 19.15 Cr as on 31st March 2014, and in addition, Rs. 31.55 Cr of unsecured loan (USL) from promoters is considered as quasi equity in FY 14. The gearing ratio, defined as Total Debt: Tangible Networth is 4.06 times and considered as high. However, considering the USL as quasi-equity, the ratio improves significantly with a reasonable coverage for its external debt obligations.

The company has informed that they have achieved net revenue of Rs. 126.20 Cr in FY15 with a PAT of Rs. 2.05 Cr (provisional). The management has also reported by an undertaking, to infuse Rs. 10 Cr into the business in FY16 out of the sale proceed of a land of Rs. 38.61 Cr.

Rating Outlook:

The rating outlook is expected to be stable over the current year. Going forward, continuous growth in the revenue from operations along with proportionate increase in the profitability would be the key rating sensitivities.

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