Ashoka

May 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	42.56	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Ashoka derives strength from the long-standing presence of the promoters in the textile retail business with established operational track record, well-established supplier base with extensive sourcing network, stable operational profile and comfortable capital structure and debt protection metrics.

The rating is, however, constrained by the operations and revenue limited to single showroom, partnership nature of constitution, and highly competitive and fragmented nature of the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent scaling up of revenue above ₹250 crore by diversifying geographical presence.

Negative factors

- Deterioration in the capital structure with gearing levels above 1.50x.
- Decline in the PBILDT margins below 5%.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the firm will continue to benefit from extensive experience of the promoters, which coupled with stable demand scenario, shall enable the firm to sustain healthy operational profile.

Key strengths

Experienced promoters and long track record of the showroom

The textile retailing business was initially set up by Mani Nadar in 1943 in the name of 'Sudesi' along with another partner. Later in 1950, this business was registered as 'Ashoka' and has been operating under the same brand name for the past seven decades. The present promoters of the entity, Antony Selvakumar and Antony Jeyaraj (sons of Mani Nadar), have over three decades of experience in similar line of business with experience in marketing, strategic planning, sourcing of textile goods and general management. The entity has long-standing presence in the Vallioor area in south Tamil Nadu, where it has established a strong brand image as a seller of quality apparels at affordable prices. The day-to-day operations are overseen by the promoters supported by different managerial heads.

Well-established relationship with suppliers and extensive sourcing network

The firm sources textiles from an extensive range of suppliers, with well-established relationship acquired over a long period, which enables the firm to source textile goods at a competitive price. The entity procures textile goods from across 25 states all over the country which enables the entity to maintain procurement costs in an optimal range. The firm also sells garments under its own brands through job work arrangement with three suppliers contributing about 15%-20% of the overall revenue.

Stable operational profile

The firm operates through a single showroom located in Vallioor in the Tirunelveli district of Tamil Nadu. The firm maintained a stable operational profile in the last five years including COVID-19 period, which was primarily due to one of the most preferred shopping complexes in the nearby districts as well as relatively lower penetration of e-commerce giants in the rural regions. The firm also implements a healthy mix of advertising, discount strategy and competitive pricing to increase its customer footprints. Though the revenue witnessed a marginal moderation during the COVID-19 period, the impact was much lower as compared to the other retail players.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy financial risk profile marked by comfortable capital structure and debt protection metrics
The financial risk profile of the firm is stable with moderate net worth of ₹46.05 crore as on March 31, 2022 (PY: ₹36.93 crore). The capital structure of the group remained comfortable with overall gearing at 0.72x as on March 31, 2022. During FY22, the firm availed a term debt of ₹22 crore for purchase of land at Chennai at a total cost of ₹40 crore for future expansion. The debt coverage indicators remained comfortable marked by interest coverage ratio of 20.73x and total debt/gross cash accruals (GCA) of 2.69x as on March 31, 2022. The management plans to go for future expansion only post closure of existing debt. Any capex implementation and the debt availed for the same if any will be a key monitorable from a credit perspective.

Key weaknesses

Operations and revenue constrained to a single showroom
The entire revenue of Ashoka is generated from Tamil Nadu with only one showroom present in Vallioor, Tirunelveli district. The area of current showroom in Vallioor is 1.25 lakh sq feet with land area of 2.25 acres. The showroom has open car parking facilities along with six floors. Food courts and restaurants are also being operated in the entity's vicinity. The presence of the firm through a single showroom keeps the revenue concentrated and exposed to socio-economic political as well as other risks associated with operating in a single location.

Partnership nature of constitution
The partnership nature of business has an inherent risk of withdrawal of capital by the partners at the time of their personal contingencies leading to adverse effect on capital structure. However, the partners have not done any major capital withdrawal during the past few years and the profits are reinvested into the business.

Highly competitive and fragmented nature of industry
The textile retail industry in India is characterised by the presence of a large number of organised and unorganised players. The fashion and apparel industry is highly competitive as large numbers of retailers sell similar looking products at similar price points. Despite being an established brand in the South Tamil Nadu Textile market, the firm is exposed to intense competition from some of the other regional players, which could lead to pressure on its margins.

Liquidity: Adequate

Ashoka has adequate liquidity characterised by sufficient cushion in estimated accruals vis-à-vis repayment obligations of ₹4.27 crore in FY24. The cash balance of the entity stood at ₹6.11 crore as on 9MFY23. Ashoka generally keeps 2-3 months of stock ensuring adequate inventory holding, however, this figure may vary based on demand. The average inventory period varies from 70-140 days over the past five years. The retail business is cash & carry, with zero credit period, and the firm benefits from a creditors' period of 30-40 days. The working capital cycle stood comfortable at 33 days as on March 31, 2022. The firm has also reduced its CC limits from ₹25 crore to ₹19 crore and converted ₹6 crore into working capital term loan. The average working capital utilisation of limits stood at 76% for 12 months ended February 2023.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cotton Textile
Retail

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Diversified Retail

Ashoka is engaged in the business of textile retailing operating through a single showroom in Vallioor, Tirunelveli, Tamil Nadu. The firm was founded by Mani Nadar in 1950 as a partnership firm. Antony Selvakumar and Antony Jeyaraj, sons of Mani Nadar, oversee the day-to-day operations of the firm as partners. The showroom at Vallioor is built upon an area of 1.25 lakh sq ft spread over six floors with varied products, such as garments, bags, home textiles, home needs under a single roof. Textiles form the major part of the revenue accounting for more than 90% of the turnover. The firm also has food court and restaurants operating near the showroom premises. The partners also operate a retail shop under the brand name, Ashoka Footwear, in a different firm.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9mFY23(UA)
Total operating income	101.99	131.43	131.82
PBILDT	8.03	12.50	17.33
PAT	4.55	10.02	13.86
Overall gearing (times)	0.06	0.72	0.65
Interest coverage (times)	7.78	20.62	8.80

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	22.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March 2027	20.56	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB-; Stable				
2	Fund-based - LT-Term Loan	LT	20.56	CARE BBB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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