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Key rating assessment
factors

ACRA upgrades the credit rating of ELDORADO LLC to BBB-(RU) and withdraws it

The credit rating upgrade of [ELDORADO LLC](#) (hereinafter, Eldorado, or the Company) to BBB-(RU), outlook Stable and removal of the "Rating under revision: positive" status are driven by repayment loan under which the Company was a guarantor. However, high leverage, adequate business profile, moderate size and profitability remain characteristic of Eldorado. The credit rating is withdrawn as requested by the Company.

Eldorado is the third largest Russian multi-product nationwide retailer in terms of sales specializing in home appliances and consumer electronics sales, with a market share close to 10%. Safmar Group that also owns M.Video, the largest player in the market, acquired the Company in late 2016. As at end-2017, the Company's retail chain totaled 415 stores. PJSC M.video announced on April 26, 2018 that its subsidiary M.video Management LLC has acquired 100% of Eldorado LLC. According to M.video estimates legal procedures for the merger of M.Video and Eldorado to be completed by the end of the first quarter 2019.

Lower leverage of the Company is driven by full discharge of obligations under the loan to OOO Safmar Retail, under which Eldorado acted as a guarantor after OOO M.Video Management, subsidiary of PJSC M.Video, acquired 100% of the Company. The above deal was financed by loan proceeds, under which Eldorado also acted as a guarantor. We believe that probability of the principal borrower's default under the above loan is fairly low; and therefore, we excluded that loan from the Company's leverage calculations. As a result of the above changes, the leverage of Eldorado has reduced, remaining, however, sufficiently high: total debt adjusted for operating lease to FFO before fixed payments ratio equals 5.6x and FFO before fixed payments to fixed payments is at 1.2x. According to our forecast, Eldorado's leverage will gradually decrease as far as the Company's profitability increases: the above ratios may improve to 4.6x and 1.4x, respectively, as early as by year-end 2018.

Moderate liquidity position. Eldorado's debt mainly includes short-term liabilities, and the Company has no substantial liquidity reserves, which forces it to continuously negotiate current debt refinancing with banks and puts liquidity under pressure. At the same time, Eldorado may improve its liquidity indicators by virtue of higher inventory management efficiency, turnaround acceleration, ensuring higher availability of goods and wider product range.

Adequate business profile and wide geographic footprint are determined by Eldorado's strong brand and its efficient promotion. The Company has fairly balanced presence in all federal districts of Russia. The online sales segment that is being actively developed increases diversification of formats used by Eldorado.

Moderate size and profitability. The FFO margin before fixed charges and taxes reached 8%. ACRA expects the profitability indicators to gradually improve in 2018-2020 by virtue of higher operational efficiency of the Company. Revenues and FFO before fixed charges of Eldorado correspond to the Company's medium size.

Key assumptions

- Gross margin ranging from 21% to 25%;
- The chain growing by 10–20 stores per year on average;
- Average exchange USD rate within RUB 60–70;
- No substantial outflow of Company's funds to service and repay its off-balance sheet liabilities.

Rating components

Standalone creditworthiness assessment (SCA): bbb-.

Adjustments: none.

Issue ratings

The Company has no securities issues outstanding.

Regulatory disclosure

The credit rating and its outlook have been assigned under the national scale for the Russian Federation and are based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

The credit rating of ELDORADO LLC was published by ACRA on March 7, 2017 for the first time. The rating action to upgrade the credit rating of ELDORADO LLC and to withdraw it was made on May 16, 2018.

The credit rating and credit rating outlook are based on the data provided by ELDORADO LLC, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and ELDORADO LLC participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by ELDORADO LLC in its financial statements have been discovered.

ACRA provided no additional services to ELDORADO LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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