August 19, 2021

Manoj Vaibhav Gems 'N' Jewellers Private Limited (erstwhile Vaibhav Empire Private Limited): Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	384.45	364.00	[ICRA]BBB (Stable)/reaffirmed; Outlook revised to Stable from Negative
Long-term - Fund Based – Term Loans	0.00	16.59	[ICRA]BBB (Stable)/reaffirmed; Outlook revised to Stable from Negative
Long-term - Unallocated facilities	20.55	24.41	[ICRA]BBB (Stable)/reaffirmed; Outlook revised to Stable from Negative
Total	**405.0**	**405.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation and revision in the outlook to Stable reflects the better-than-expected performance of Manoj Vaibhav Gems ‘N’ Jewellers Private Limited (MVGJPL) in FY2021 and the anticipated steady performance over the medium term on the back of favourable demand conditions. Post the pandemic-induced demand disruptions in H1 FY2021, improved demand scenario and customer sentiments along with its established market position helped MVGJPL recover in the second half of the fiscal, resulting in a heathy revenue growth of 12% in FY2021. However, its operating margins remained relatively low at 5.2% on the back of high operating costs and reduced share of studded jewellery. Nevertheless, MVGJPL’s margins are expected to improve to 6% in the coming fiscals, given the increasing focus on improving its product portfolio with a higher share of studded jewellery. Further, revenue growth over the medium term would be supported by continued expansion of store network as well as opportunities presented by a large share of unorganised players in the industry. The ratings also consider MVGJPL’s moderate credit metrics, given the high working capital requirements (on the back of its relatively low inventory turnover) funded through external debt and modest margins enjoyed over the years. Coverage metrics are likely to improve steadily over the medium term on the back of focused efforts towards improving margins and inventory turnover. Key ratios including interest coverage ratio are likely to improve to around 2.5 times in FY2022. Further, the rating factors in the geographical concentration risks as 90% of its revenues are generated from Andhra Pradesh and intense competition from other players, which limits pricing flexibility and exposes its earnings to gold price fluctuations.

Key rating drivers and their description

Credit strengths

Established market position – MVGJPL enjoys an established retail presence in Andhra Pradesh and Telangana, with strong brand recognition especially in Vishakhapatnam and coastal districts of Andhra Pradesh. In the combined market of Andhra Pradesh and Telangana, MVGJPL enjoys a market share of around 10-12.5%. The same is illustrated by the steady performance witnessed over the years and a better-than-industry volumes sold by the company in FY2021 (on the back of showroom expansion and strong recovery in H2 FY21).

Improving regulatory restrictions of jewellery sector to support organised trade – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency, and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting organised players such as MVGJPL over the years. The company has been consistently gaining market share in the coastal markets of Andhra Pradesh with focused marketing efforts. An expected increase in the share of studded jewellery is also likely to drive MVGJPL's margin expansion over the medium term.

Credit challenges

High working capital intensity – MVGJPL's leverage indicators have remained at moderate levels, characterised by total outside liabilities to tangible net worth of around 2.4 times in FY2021, on the back of high stock requirements in the sector and relatively low inventory turnover of the company. Besides, dependence on external debt for funding its stock levels and low operating margins owing to limited share of studded jewellery, also resulted in moderate coverage indicators. The interest coverage ratio stood at around 2 times in FY2021, which is expected to improve in the coming fiscals with a growth in earnings and limited incremental borrowings expected.

Earnings exposed to geographical concentration risks and intense competition – The company faces relatively high geographical concentration risk as its main areas of operations are Visakhapatnam and other coastal areas of Andhra Pradesh. Further, its performance is exposed to intense competition from many organised and unorganised players, which limits pricing flexibility and exposes earnings to volatile gold prices.

Liquidity position: Adequate

MVGJPL's liquidity position is expected to remain adequate, supported by steady earnings from operations, adequate unutilised lines of credit and free cash balances of around Rs. 58 crore as on June 30, 2021. While the average utilisation of its fund-based limits over the last 12 months period ending June 2021 was high at 94%, it has reduced in the recent months to around 90-92%, supported by the low-cost loan under the Emergency Credit Line Guarantee Scheme (ECLGS), drawn in March 2021. MVGJPL is expected to generate cash accruals of more than Rs. 40 crore in FY2022, which would be adequate to meet incremental working capital requirements, debt repayment obligations of ~ Rs. 12 crore and moderate capital expenditure of Rs. 5 crore.

Rating sensitivities

Positive factors – The rating could be upgraded upon sustained growth in revenues and earnings along with an improvement in the inventory turnover, which would improve MVGJPL's coverage metrics and liquidity position. Specific credit metrics that could lead to an upgrade of ratings include an Interest coverage above 4.0 times on a sustained basis.

Negative factors – The rating could be downgraded owing to any sustained pressure on earnings or any stretch in the working capital cycle, which would adversely impact its coverage metrics and liquidity profile. Specific credit metrics that could lead to a downgrade of ratings include interest coverage of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Manoj Vaibhav Gems 'N' Jewellers Private Limited (MVGJPL) was formed as Hotel Anant Private Limited (HAPL) on March 13, 1989. HAPL was acquired by Mr. Manoj Kumar Gandhi and family in 2003 and was renamed as Vaibhav Empire Private Limited. The company was subsequently renamed as Manoj Vaibhav Gems 'N' Jewellers Private Limited in July 2016. The company retails gold jewellery and operates through 10 stores spread across Andhra Pradesh and Telangana. MVGJPL opened a franchise store in Srikakulam, Andhra Pradesh in FY2020 and another store at Vizianagaram, Andhra Pradesh in FY2021.

Key financial indicators

MVJPL Standalone	FY2020	FY2021*
Operating Income (Rs. crore)	1,279.1	1,433.6
PAT (Rs. crore)	26.9	20.7
OPBDIT/OI (%)	6.2%	5.4%
PAT/OI (%)	2.1%	1.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.4
Total Debt/OPBDITA (times)	5.3	6.0
Interest Coverage (times)	2.0	2.0

Source: MVJPL; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation
**Based on provisional financial statements*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					August 19, 2021	July 07, 2020	-	February 04, 2019
1	Fund based/ CC	Long Term	364.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)
2	Fund based – Term Loans	Long Term	16.59	11.06	[ICRA]BBB (Stable)	-	-	[ICRA]BBB (Stable)
3	Unallocated	Long Term	22.41	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)

Source: MVGJPL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund Based/ Cash Credit	Simple
Long-term - Fund Based – Term Loan	Simple
Long-term – Unallocated facilities	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	364.00	[ICRA]BBB (Stable)
NA	Working Capital Term Loan-1	March 2020	-	February 2022	8.53	[ICRA]BBB (Stable)
NA	Working Capital Term Loan-2	March 2021	-	March 2026	4.86	[ICRA]BBB (Stable)
NA	Working Capital Term Loan-3	June 2020		June 2021	3.20	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	24.41	[ICRA]BBB (Stable)

Source: MVGJPL

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

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