May 07, 2024

Manoj Vaibhav Gems 'N' Jewellers Limited: Long-term rating upgraded to [ICRA]BBB+ (Stable); short-term rating of [ICRA]A2 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	361.00	361.00	[ICRA]BBB+ (Stable), upgraded from [ICRA]BBB (Stable)
Long-term Fund-based – Term Loans	83.47	61.60	[ICRA]BBB+ (Stable), upgraded from [ICRA]BBB (Stable)
Long-term – Unallocated Limits	5.53	0.00	-
Short-term – Non-Fund based – Working Capital Facilities#	0.00	(47.00)	[ICRA]A2, assigned
Long-term/ Short-term – Unallocated Limits	0.00	27.40	[ICRA]BBB+ (Stable), upgraded from [ICRA]BBB (Stable)/ [ICRA]A2, assigned
Total	**450.00**	**450.00**	

** Instrument details are provided in Annexure – I*

 # Sub-limit of fund-based working capital facilities

Rationale

The long-term rating upgrade of Manoj Vaibhav Gems 'N' Jewellers Limited (MVGJL) considers its improved financial profile, post the initial public offering (IPO) in September 2023 and a steady growth in its turnover over the past few years, which ICRA expects to continue in the medium term, given the store expansion planned by the entity. ICRA notes that the company raised around Rs. 210 crore from fresh issue of equity shares through an IPO, which strengthened its net worth, and positively impacted the capital structure and the coverage metrics.

The ratings continue to favourably factor in the established retail presence of MVGJL along with a strong brand recognition in Andhra Pradesh and Telangana and a shift in demand towards organised players, supported by greater push for formalisation of the industry. In view of the planned expansion of its retail outlet as per the IPO programme, the top line of the company is likely to register a steady growth in the medium term. ICRA expects the operating profit margin (OPM) of the company to remain at around 7.0%, going forward. The RoCE of the company is likely to remain at a comfortable level in the near-to-medium term.

The ratings are, however, constrained by the high working capital intensity of operations with large inventory holding requirements, which result in higher dependence on working capital loans. The average working capital utilisation against the sanctioned limits also remained high at around 92% over the last 15 months, ended in March 2024, thus exerting some pressure on liquidity. Further, the ratings are impacted by the high geographical concentration risk as around 92% of its revenues is generated from Andhra Pradesh. The ratings also consider intense competition from other players, which limits pricing flexibility and exposes its earnings to gold price fluctuations.

The Stable outlook on the long-term rating reflects ICRA's opinion that MVGJL's operational and financial performances will continue to benefit from the favourable demand conditions, its established market position, increased focus on expansion into new markets and generation of healthy cash flows relative to its debt service obligation.

Key rating drivers and their description

Credit strengths

Established market position along with strong brand recognition in Andhra Pradesh – MVGJL 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 markets of Andhra Pradesh and Telangana, MVGJL enjoys a market share of around 5% and ~14% of the organised market, respectively. The company's established track record of operations and long experience of the promoters largely mitigate the operational risks. The same is illustrated by the steady performance witnessed over the years.

Steady growth in top line, thereby increasing profits and cash accruals from business – The operating income of the company witnessed a steady growth over the past four years, primarily driven by a rise in gold price, also supported by an increase in the volume offtake of gold jewellery, particularly in FY2022 and FY2023. Despite a fall of around 7% in the sales volume, MVJGL's top line is estimated to increase by around 7% in FY2024 on a YoY basis, primarily supported by a rise in the gold price along with enhanced value addition and contribution of other products. In view of the planned addition in the retail outlet, the overall sales volume is likely to register a growth in the next two years. This, supported by a likely increase in the gold price, is estimated to drive a growth in the operating income of the company by 7-8%, on a YoY basis, over the next two years. In view of the growing scale of operations, the overall profits and cash accruals from the business are estimated to increase in FY2025.

Successful execution of IPO, leading to improvement in the capital structure and debt protection metrics – The capital structure of the company gradually improved over the past few years, primarily owing to healthy accretion to reserves. The gearing and TOL/TNW stood at 1.4 times and 2.1 times, respectively as on March 31, 2023. The coverage indicators have also improved over the past few years and stood at a comfortable level in FY2023. ICRA notes that the company has raised around Rs. 210 crore from a fresh issue of equity shares through an IPO in September 2023. With an increase in the equity base of the company, post IPO, along with repayment of unsecured loan of Rs. 45 crore to its promoter, the capital structure of the company is estimated to witness a sharp improvement in FY2024. ICRA expects the capital structure and coverage indicators of the company to improve gradually, going forward, supported by healthy net worth, moderate debt level and sizeable profits and cash accruals from the business.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation, over the recent years have accelerated the shift in the market share from the unorganised players. The industry tailwinds are expected to benefit the organised jewellery retailers like MVGJL over the medium term, supported by its expanding retail presence. An expected increase in the share of studded jewellery is also likely to increase MVGJL's margin over the medium term.

Credit challenges

Performance exposed to intense competition and regulatory risks in retail jewellery segment – Jewellery retail business is very competitive with large share of unorganised trade. This coupled with major store expansions by larger retailers into tier-2 and tier-3 cities in the recent years has intensified competition and limited the pricing flexibility among players. MVGJL remains exposed to intense industry competition with limited pricing flexibility and presence of a large number of organised and unorganised players, which keep its margins under check. The OPM of the company remained in the range of 6-7% over the past few years. The net profit margin (NPM) stood at a moderate level of 3.5% in FY2023. ICRA expects the OPM of the company to remain more or less at 7.0%, going forward. The RoCE of the company, however, is likely to remain at a comfortable level in the near-to-medium term.

High geographical concentration risk – The company had 11 showrooms of which nine are in Andhra Pradesh and the rest are in Telangana. The company faces high geographical concentration risk as a single state accounted for around 92% of its revenue in FY2023. The company opened one showroom in Rajam, Andhra Pradesh and another one in Mancherial, Telangana in March

2024, as per the proposed IPO programme. The company is primarily focusing on opening showrooms in tier-2 and tier-3 cities and intends to open three stores each in Andhra Pradesh and Telangana in FY2025.

High working capital intensity of operations, exerting pressure on liquidity – Jewellery retailing business is highly working capital intensive in nature, given the need to display varied designs of jewellery to its customers. MVGJL generally maintains an inventory of 5-6 months on an average, across its stores, depending on the footfall and the stock holding surge during the festive season. While the inventory volumes have remained steady, the inventory days went up in end-March 2023 due to higher valuation of the inventory amid rising gold prices. However, net working capital relative to the operating income of the company improved to 36% in FY2023 from 40% in FY2022, largely supported by increased deposits from the customers under jewellery savings scheme. With a large stockholding requirement, the dependence on working capital loans remains high. The company has high utilisation of its available bank limits, resulting in limited head room in the bank lines, thus exerting pressure on its liquidity. The company's ability to manage its inventory levels and liquidity position, while increasing the scale will be the key determinants of its financial risk profile.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/ flooding in the operating regions, impacting its jewellery stores. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including a shift towards less gold-intensive daily/ fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, given the skilled nature of work.

Liquidity position: Adequate

The company generated positive cash flow from operations in FY2023. However, with a likely increase in the overall inventory level, the cash from operations is estimated to turn marginally negative in FY2024 and would continue to remain negative in FY2025 as well. The company has raised around Rs. 210 crore through the IPO, a major portion of which would support its enhanced working capital requirement for the planned addition of eight new stores. The company has long-term debt repayment obligations of Rs. 21-24 crore over the next two years. The average fund-based working capital utilisation of the company stood at around 92% during the last 15 months, ended in March 2024. ICRA estimates that MVGJL is likely to generate cash accruals of more than Rs. 85 crore in FY2025, which along with available proceeds (around Rs. 139 crore as on March 31, 2024) from the IPO would be adequate to meet its incremental working capital requirements, moderate long-term debt repayment obligations of around Rs. 21 crore and capital expenditure of around Rs. 14 crore. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of MVGJL if there is a sustained growth in revenues and earnings along with an improvement in the inventory turnover, which would improve its coverage metrics and liquidity position.

Negative factors – ICRA may downgrade the ratings of MVGJL if there is a sustained pressure on the earnings or any stretch in the working capital cycle, which would adversely impact its coverage metrics and liquidity profile. Specific credit metrics that may trigger ratings downgrade include an interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Jewellery – Retail](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Manoj Vaibhav Gems 'N' Jewellers Limited (MVGJL) was originally incorporated as Hotel Anant Private Limited (HAPL) in 1989. HAPL was acquired by the current promoters in 2003 and was renamed as Vaibhav Empire Private Limited. The company was again renamed as Manoj Vaibhav Gems 'N' Jewellers Private Limited in July 2016 and was further converted into a public limited company in May 2022. The company is currently involved in retailing of gold/ silver/ diamond/ platinum and various studded jewellery and operates through 13 showrooms and two franchisee stores spread across Andhra Pradesh and Telangana. The company sells its products under the brand, Vaibhav Jewellers.

The company raised around Rs. 210 crore from a fresh issue of equity shares through an IPO in September 2023. Subsequently, the equity shares of the company were listed on BSE and NSE on October 3, 2023.

Key financial indicators (audited)

MVGJL, Standalone	FY2022	FY2023	H1 FY2024*	H1 FY2023*
Operating income	1,693.9	2,027.3	1,128.1	1,022.3
PAT	43.7	71.6	41.4	31.8
OPBDIT/OI	6.2%	7.1%	7.0%	6.4%
PAT/OI	2.6%	3.5%	3.7%	3.1%
Total outside liabilities/Tangible net worth (times)	2.3	2.1	1.4	-
Total debt/OPBDIT (times)	4.8	3.4	3.3	-
Interest coverage (times)	2.5	3.3	3.6	3.2

*Source: Manoj Vaibhav Gems 'N' Jewellers Limited, ICRA Research; * Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 7, 2024	-	Mar 6, 2023	Nov 28, 2022	Aug 19, 2021
1	**Fund-based – Working Capital Facilities**	Long Term	361.00	333.63	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Term Loan**	Long Term	61.60	70.56	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	**Unallocated Limits**	Long Term	-	-	-		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	**Non-fund based – Working Capital Facilities[#]**	Short Term	(47.00)	-	**[ICRA]A2**	-	-		-
5	**Unallocated Limits**	Long Term/ Short Term	27.40	NA	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	-	-		-

 # Sub-limit of fund-based working capital facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Term Loans	Simple
Short-term non-fund based – Working Capital Facilities	Very Simple
Long-term/ Short-term – Unallocated Limits	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL 1	-	-	-	32.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 2	-	-	-	28.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 3	-	-	-	64.50	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 4	-	-	-	143.50	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 5	-	-	-	76.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL 6	-	-	-	17.00	[ICRA]BBB+ (Stable)
NA	Working Capital Term Loan (GECL 1)	FY2021	-	FY2026	2.60	[ICRA]BBB+ (Stable)
NA	Working Capital Term Loan (GECL 2)	FY2021	-	FY2026	31.56	[ICRA]BBB+ (Stable)
NA	Working Capital Term Loan (GECL 3)	FY2022	-	FY2029	20.00	[ICRA]BBB+ (Stable)
NA	Working Capital Term Loan (GECL 4)	FY2022	-	FY2028	7.44	[ICRA]BBB+ (Stable)
NA	SBLC/ Bank Guarantee 1#	-	-	-	(15.00)	[ICRA]A2
NA	Bank Guarantee 2#	-	-	-	(2.00)	[ICRA]A2
NA	SBLC/ Bank Guarantee 3#	-	-	-	(30.00)	[ICRA]A2
NA	Unallocated Limits	-	-	-	27.40	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Manoj Vaibhav Gems 'N' Jewellers Limited

 # Sub-limit of fund-based working capital facilities

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Mr. Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Ms. Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches