Manoj Vaibhav Gems ‘N’ Jewellers Private Limited

January 08, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash Credit	262.50	312.50	[ICRA]BBB (Stable); Reaffirmed
Fund based - Term Loan	4.88	2.88	[ICRA]BBB (Stable); Reaffirmed
Working Capital Term Loan	15.00	0.00	[ICRA]A3+; Withdrawn
Unallocated Limits	51.54	55.00	[ICRA]BBB (Stable); Reaffirmed
Total	**333.92**	**370.38**	

Rating action:

ICRA has reaffirmed the long-term rating assigned to Rs. 315.38-crore[1] (enhanced from Rs. 267.38 crore earlier) fund-based limits and Rs. 55.00-crore (Rs. 51.54 crore earlier) unallocated limits of Manoj Vaibhav Gems ‘N’ Jewellers Private Limited (MVGJPL)[2] at [ICRA]BBB (pronounced ICRA triple B). ICRA has withdrawn the short-term rating of [ICRA]A3+ assigned to working capital term loan limits. The outlook on the long-term rating is Stable.

Rationale:

The long-term rating reaffirmation takes into account the healthy growth in retail jewellery sales by 22% in FY2017 led by 12.7% growth in realisations and 6.7% increase in sales volume aided by expansion through new stores. Overall, retail jewellery sales witnessed CAGR of 12% during FY2013 to FY2017. Further, the rating derives comfort from the improved geographical diversification over the last two years with the opening of new stores, thereby reducing the dependence on its flagship store, V-square, at Visakhapatnam. The contribution from V-Square to the overall retail revenues has declined from 79% in FY2016 to 68% in FY2017 and further to 62% in H1 FY2018. The rating continues to factor in the strong brand name enjoyed by the company in Visakhapatnam market and the experienced management team with over two decades of presence in retail jewellery business.

The rating is however constrained by the expected increase in the overall borrowing levels to fund new store expansion thereby exerting pressure on leverage and coverage indicators in the near term. The company intends to open two new stores over the next six months with an estimated outlay of Rs.16 crore, proposed to be funded through debt of Rs.9.6 crore and internal accruals of Rs.6.4 crore. In addition, the incremental working capital borrowings are estimated to be in the range of Rs. 50 crore – Rs. 60 crore in order to support the inventory requirement at the new stores. Also, the proposed stores are planned in highly competitive markets like Hyderabad and Vijayawada which could limit pricing flexibility. However, increasing proportion of low cost gold metal loans in working capital borrowings is expected to lower interest expense to an extent. The rating also takes note of the heightened regulatory risks in the industry in the recent years, which exposes the operations to risk of disruption in gold bullion supplies. With the long term demand fundamentals remaining intact for the industry, the company’s ability to manage the fluctuations in gold prices would be critical to ensure sustainability of operating profit margins.

[1] *100 lakh = 1 crore = 10 million*

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Going forward, the ability of the company to improve profitability in the existing stores; achieve break-even for newly opened stores and effectively manage its working capital requirements would be the key rating sensitivities.

Outlook: Stable

ICRA believes that MVGJPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if the company achieves substantial growth in revenue and profitability with improved working capital cycle thereby strengthening its financial risk profile. The outlook may be revised to Negative in case of lower than anticipated performance of new stores thereby resulting in delay in achieving break-even, higher than expected debt-funded capital expenditure programme or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Established brand name with experienced management team: The Company enjoys strong brand name in the retail jewellery market of Vishakapatnam supported by experienced management team with over two decades of presence in retail jewellery business.

Healthy growth in retail jewellery business: MVGJPL witnessed healthy growth in retail jewellery sales by 22% in FY2017 led by 12.7% growth in realisations and 6.7% increase in retail gold sales volume aided by expansion through new stores. Overall, retail jewellery sales witnessed CAGR of 12% during FY2013 to FY2017.

Improved geographical diversification: The company has improved its geographical diversification over the last two years with the opening of new stores, thereby reducing the dependence on its flagship store, V-square, at Visakhapatnam. The contribution from V-Square to the overall retail revenues has declined from 79% in FY2016 to 68% in FY2017 and further to 62% in H1 FY2018

Credit Challenges

Debt-funded expansion plans to result in increase in borrowing levels in near term: The Company intends to open two new stores over the next six months with an estimated outlay of Rs.16 crore, proposed to be funded through debt of Rs.9.6 crore and internal accruals of Rs.6.4 crore. In addition, the incremental working capital borrowings are estimated to be in the range of Rs. 50 crore – Rs. 60 crore in order to support the inventory requirement at the new stores. Hence the expected increase in the overall borrowing levels to fund new store expansion thereby exerting pressure on leverage and coverage indicators in the near term.

Entry into highly competitive markets could limit pricing flexibility: The new stores opened in CY2018 and also the proposed stores are planned in highly competitive markets like Hyderabad and Vijayawada which could limit pricing flexibility.

Regulatory risks: The ratings factor in heightened regulatory risks in the industry in the recent years, which exposes the operations to risk of disruption in gold bullion supplies. With the long term demand fundamentals remaining intact for the industry, the company's ability to manage the fluctuations in gold prices would be critical to ensure sustainability of operating profit margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Gold Jewellery Retail Industry

About the company:

MVGJPL was instituted as 'Hotel Anant Private Limited' (HAPL) on March 13, 1989. HAPL was acquired by Mr. Manoj Kumar Grandhi and family in 2003, and was renamed as Vaibhav Empire Private Limited. The company is currently involved in the business of gold jewellery retailing along with the trading of bullion. MVGJPL presently operates through nine stores spread across 52,029 sft, of which 7 are located in Andhra Pradesh and 2 in Telangana. The company was renamed as Manoj Vaibhav Gems 'N' Jewellers Private Limited on July 4, 2016.

In FY2017, the company reported a net profit of Rs. 13.66 crore on an operating income (OI) of Rs. 1043.52 crore compared with a net profit of Rs. 12.49 crore on an OI of Rs. 1228.53 crore in FY2016.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	1228.53	1043.52
PAT (Rs. crore)	12.49	13.66
OPBDIT/ OI (%)	4.06%	5.26%
RoCE (%)	1.02%	1.31%
Total Debt/ TNW (times)	1.9	1.8
Total Debt/ OPBDIT (times)	4.6	4.5
Interest Coverage (times)	1.7	1.8
NWC/ OI (%)	23%	29%

Source: MVGJPL and ICRA research: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating January 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 May 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 May 2015
1	Cash Credit	Long Term	312.50	312.50	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	2.88	2.88	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	55.00	55.00	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
4	Working Capital Term Loan	Short Term	0.00	0.00	Withdrawn	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	11.50%	-	312.50	[ICRA]BBB(Stable); Reaffirmed
NA	Term Loan	June 2015	12.50%	June 2019	2.88	[ICRA]BBB(Stable); Reaffirmed
NA	Unallocated	-	-	-	55.00	[ICRA]BBB(Stable); Reaffirmed

Source: MVGJPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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