Manoj Vaibhav Gems 'N' Jewellers Private Limited (Erst Vaibhav Empire Pivate Limited)

February 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	312.50	341.00	[ICRA]BBB (Stable); Reaffirmed
Fund based – Term Loan	2.88	2.88	[ICRA]BBB (Stable); Reaffirmed
Unallocated Limits	55.00	52.00	[ICRA]BBB (Stable); Reaffirmed
Total	**370.38**	**395.88**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the healthy growth witnessed in same stores sales by 13.7% and 8.1% in FY2018 and H1 FY2019 respectively led by increase in gold sales volume, mainly attributed to growth at its flagship store in Vishakhapatnam. Overall retail jewellery revenues grew by 26% in FY2018 to Rs. 1167.1 crore aided by expansion through new stores and witnessed a CAGR of 16% during FY2014 to FY2018. Further, the rating derives comfort from the improved geographical diversification over the last two years with the opening of four 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 68% in FY2017 to 63% in FY2018 and further to 58% in H1 FY2019. 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. ICRA notes the demand outlook for gold jewellery in India remains favourable over the medium to long-term, underpinned by the strong cultural affinity for gold; increasing regulatory restrictions aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, benefiting the organised players.

However, the rating continues to be constrained by the high overall indebtedness to support the inventory requirements of its expanding store base. As a result, the capital structure of the company is highly leveraged[1] with TOL/OPBITDA of 7.4 times and TOL/TNW of 3.0 times as on March 31, 2018. Consequently, the interest cover is moderate at 1.9 times in FY2018. While the fund-based limit utilisation is high, ICRA takes comfort from the unencumbered cash balances of Rs. 28 crore as on March 2018. The company intends to open two new stores over the next twelve months with an estimated outlay of Rs.10 crore. The incremental working capital borrowings to support these new stores is estimated to be in the range of Rs. 50 crore – Rs. 60 crore thereby resulting in increase in overall borrowing levels. ICRA also notes the intense competition in the industry with limited pricing flexibility, characterised by the presence of a large number of organised and unorganised players, which keeps its margins under check.

[1] Adjusted for unsecured loans from group entities which is interest free with no fixed repayment tenure, the adjusted TOL/OPBIDTA of 6.8 times and adjusted TOL/TNW of 2.7 times as on March 31, 2018.

While re-affirming the rating, ICRA notes that, Rs. 116.5 crore deposits have been collected by one of the group companies of MVGJPL through gold savings scheme as on September 30, 2018 and of these deposits Rs. 40 has been given as unsecured loans to MVGJPL.

Outlook: Stable

ICRA believes that MVGJPL will continue to benefit from the strong brand and extensive experience of its promoters. The outlook may be revised to Positive if the company achieves faster stock rotations and improved operating efficiencies along 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 or stretch in the working capital cycle, thus weakening liquidity position of the company.

Key rating drivers

Credit strengths

Healthy same store sales growth: MVGJPL witnessed healthy growth in same stores sales by 13.7% and 8.1% in FY2018 and H1 FY2019 respectively led by increase in gold sales volume and mainly attributed to growth of flagship store in Vishakhapatnam. Overall retail jewellery revenues grew by 26% in FY2018 to Rs. 1167.1 crore aided by expansion through new stores and witnessed a CAGR of 16% during FY2014 to FY2018.

Improved geographical diversification: The company has improved its geographical diversification over the last two years with the opening of four 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 68% in FY2017 to 63% in FY2018 and further to 58% in H1 FY2019

Established brand name with experienced management team: The company enjoys strong brand name in Visakhapatnam market and the experienced management team with over two decades of presence in retail jewellery business.

Favourable demand outlook in medium term: ICRA notes the demand outlook for gold jewellery in India remains favourable over the medium to long-term, underpinned by the strong cultural affinity for gold; increasing regulatory restrictions aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, benefiting the organised players.

Credit challenges

Leveraged capital structure of the company: The company has high overall indebtedness to support the inventory requirements of its expanding store base. As a result, the capital structure of the company is highly leveraged with TOL/OPBITDA of 7.4 times and TOL/TNW of 3.0 times as on March 31, 2018. Consequently, the interest cover is moderate at 1.9 times in FY2018. While the fund-based limit utilisation is high, ICRA takes comfort from the unencumbered cash balances of Rs. 28 crore as on March 2018.

Incremental borrowings to support new planned stores: The company intends to open two new stores over the next twelve months with an estimated outlay of Rs.10 crore. The incremental working capital borrowings to support these new stores is estimated to be in the range of Rs. 50 crore – Rs. 60 crore thereby resulting in increase in overall borrowing levels.

Significant competition limits pricing flexibility: The company is exposed to intense competition in the industry with limited pricing flexibility, characterised by the presence of a large number of organised and unorganised players, which keeps its margins under check.

Regulatory risks: The ratings factor in regulatory risks in the industry in the recent years, which impacts the operations of the jewellers. 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.

Liquidity Position:

As on March 31, 2018, the company has unencumbered cash balance of Rs. 28 crore. The working capital utilisation of the company is high in the range of 90-95% of the sanctioned limits. The debt repayment obligation in FY2019 is Rs. 1.6 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery - Retail Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company.

About the company:

Manoj Vaibhav Gems 'N' Jewellers Private Limited (Erst Vaibhav Empire Pivate Limited) (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 was renamed as Manoj Vaibhav Gems 'N' Jewellers Private Limited in July 2016. The company is currently involved in the business of gold jewellery retailing along with the trading of bullion. MVGJPL presently operates through ten stores spread across 53,500 sft, of which 8 are located in Andhra Pradesh and 2 in Telangana.

As per audited results for FY2018, the firm reported a net profit of Rs. 18.2 crore on an operating income (OI) of Rs. 1320.4 crore, as against a net profit of Rs. 13.7 crore on an OI of Rs. 1043.5 crore in FY2017.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. Crore)	1043.5	1320.4
PAT (Rs. Crore)	13.7	18.2
OPBDIT/OI (%)	5.0%	4.7%
RoCE (%)	12.8%	12.5%
Total Debt/TNW (times)	2.3	2.5
Total Debt/OPBDIT (times)	6.0	6.2
Interest coverage (times)	1.8	1.9

Source: MVGJPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating February 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 January 2018	May 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 May 2015
1	Cash Credit	Long Term	341.00	341.00	[ICRA]BBB (Stable)	[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)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	52.00	52.00	[ICRA]BBB (Stable)	[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	-	11.0%	-	341.00	[ICRA]BBB (Stable)
NA	Term Loan	June 2015	12.5%	June 2019	2.88	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	52.00	[ICRA]BBB (Stable)

Source: MVGJPL

ANALYST CONTACTS

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Shubham Jain
+91 124 4545306
shubhamj@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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