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Manoj Vaibhav Gems 'N' Jewellers Private Limited (erstwhile Vaibhav Empire Private Limited): Rating reaffirmed; outlook revised to Negative from Stable, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	341.00	384.45	[ICRA]BBB; reaffirmed; Outlook revised to Negative from Stable
Term Loan	2.88	0.00	-
Unallocated Limits	52.00	20.55	[ICRA]BBB; reaffirmed; Outlook revised to Negative from Stable
Total	**395.88**	**405.00**	

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating outlook to Negative from Stable for Manoj Vaibhav Gems 'N' Jewellers Private Limited (MVGJPL) reflects the impact of the Covid-19 pandemic on the jewellery industry. Following the rapid proliferation of the disease, the Government has resorted to lockdown to curb the contagion. The lockdown ahead of the festival and wedding season has impacted the short-term revenues of the jewellery industry. After nearly two months of closure of operations, the company's stores were re-opened in the last week of May 2020 and all the 10 stores are operational now. ICRA notes the demand outlook for gold jewellery in India would remain Negative in the near term because of weak consumer demand, increase in gold prices and possible postponement of weddings, thereby resulting in significant revenue decline in FY2021. The revenues for MVGJPL are expected to decline by around 35-40% in FY2021.

The rating reaffirmation continues to factor in the strong brand name enjoyed by the company in the Visakhapatnam market and the experienced management team with over two decades of presence in the retail jewellery business. Further, the rating derives comfort from the improved geographical diversification over the last four years, with the opening of six new own stores and one store through the franchise model, thereby reducing the dependence on its flagship store, V-square, at Visakhapatnam. The contribution from V-Square to the overall retail revenues declined from 68% in FY2017 to 57% in FY2020. MVGJPL presently operates through 10 stores, spread across 53,500 sq ft, of which eight are located in Andhra Pradesh and two in Telangana. The rating also takes into account healthy growth in retail sales, at 10.2% CAGR during FY2014-FY2020, due to an increase in sales volume aided by an expansion of stores from 1 in FY2014 to 10 in FY2020. However, the same store sales growth in FY2020 remained muted at 2.5% because of increase in gold prices, slowdown in economy and closure of operations during last 10 days of March 2020.

The rating, however, remains constrained by the high overall debt needed to support the inventory requirements of MVGJPL's expanding store base. As a result, the capital structure of the company is highly leveraged[1] with TOL/OPBITDA of 7.2 times and TOL/TNW of 2.7 times as on March 31, 2020. Consequently, the interest cover is moderate at 2.0 times

[1] Adjusted for unsecured loans from group entities which is interest free with no fixed repayment tenure, the adjusted TOL/OPBIDTA of 6.6 times and adjusted TOL/TNW of 2.5 times as on March 31, 2020.

in FY2020. While the fund-based limit utilisation is high, ICRA takes comfort from the unencumbered cash balances of Rs. 18.1 crore as on March 31, 2020. ICRA also notes the 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 company has no capex plans in FY2021 and is expected to open two new stores in FY2022.

While re-affirming the rating, ICRA notes that Rs. 113.7 crore deposits have been collected by one of the group companies of MVGJPL through gold savings scheme as on December 31, 2019 and of these deposits Rs. 45 crore has been given as unsecured loans to MVGJPL.

Key rating drivers and their description

Credit strengths

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

Improved geographical diversification: The company has improved its geographical diversification over the last four years with the opening of six new own stores and one store through franchise model, thereby reducing the dependence on its flagship store, V-square, at Visakhapatnam. The contribution from V-Square to the overall retail revenues declined from 68% in FY2017 to 57% in FY2020. MVGJPL presently operates through 10 stores spread across 53,500 sq ft, of which eight are located in Andhra Pradesh and two in Telangana.

Healthy growth in retail sales during FY2014 to FY2020: MVGJPL witnessed healthy growth in retail sales at 10.2% CAGR during FY2014-FY2020 due to increase in sales volume aided by expansion of stores from 1 in FY2014 to 10 in FY2020. However, the same store sales growth in FY2020 remained muted at 2.5% because of increase in gold prices, slowdown in economy and closure of operations during last 10 days of March 2020.

Credit challenges

Negative outlook on industry due to Covid-19 impact: ICRA notes the demand outlook for gold jewellery in India would remain Negative in near term due to weak consumer demand, increase in gold prices and possible postponement of weddings thereby resulting in significant de-growth in FY2021. The revenues for MVGJPL are expected to decline by around 35-40% in FY2021.

Leveraged capital structure: The company has high overall debt needed to support the inventory requirements of MVGJPL's expanding store base. As a result, the capital structure of the company is highly leveraged with TOL/OPBITDA of 7.2 times and TOL/TNW of 2.7 times as on March 31, 2020. Consequently, the interest cover is moderate at 2.0 times in FY2020. While the fund-based limit utilisation is high, ICRA takes comfort from the unencumbered cash balances of Rs. 18.1 crore as on March 31, 2020.

Significant competition limits pricing flexibility: The company is 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.

Liquidity Position: Adequate

MVGJPL's liquidity position remains adequate with unencumbered cash balance of Rs. 18.1 crore as on March 31, 2020. The working capital utilisation of the company is high, in the range of 90-92% of the sanctioned limits. There are no external long-term debt obligations of the company in FY2021.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. However, the outlook may be revised to Stable if the company witnesses higher-than-expected ramp up in retail sales while maintaining the profitability.

Negative triggers – Negative pressure on the rating could arise from a sharp deterioration in the company's earnings or rise in debt levels, deterioration in debt protection metrics with interest coverage ratio of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in 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 (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 10 stores spread across 53,500 sq ft, of which eight are located in Andhra Pradesh and two in Telangana. In March 2019, MVGJPL has opened a new store in Srikakulam, Andhra Pradesh through the franchise model.

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. Crore)	1247.4	1279.1
PAT (Rs. Crore)	30.7	27.1
OPBDIT/OI (%)	6.5%	6.2%
PAT/OI (%)	2.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.7
Total Debt/OPBDIT (times)	5.0	5.3
Interest coverage (times)	2.5	2.0

Source: MVGJPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019	FY2018	
					7-Jul-2020	-	4-Feb-2019	8-Jan-2018	4-May-2017
1	Cash Credit	Long Term	384.45	384.45	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	2.88	0.00	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long Term	52.00	20.55	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Working Capital Term Loan	Short Term	0.00	0.00	-	-	-	Withdrawn	[ICRA]A3+

Amount in Rs. crore

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%	-	384.45	[ICRA]BBB (Negative)
NA	Unallocated	-	-	-	20.55	[ICRA]BBB (Negative)

Source: MVGJPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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