March 06, 2023

Manoj Vaibhav Gems 'N' Jewellers Limited: Rating assigned to enhanced limits; reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	361.00	361.00	[ICRA]BBB (Stable); reaffirmed
Long-term - Fund Based – Term Loans	-	83.47	[ICRA]BBB (Stable); assigned
Long-term - Unallocated facilities	44.00	5.53	[ICRA]BBB (Stable); reaffirmed
Total	**405.00**	**450.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the healthy improvement in Manoj Vaibhav Gems ‘N’ Jewellers Limited’s (MVGJL) revenues in FY2022 and ICRA’s expectation of sustained business performance over the medium term on the back of favourable demand conditions supported by an increase in sales volumes. In FY2022, the company’s revenues grew ~18% YoY to Rs. 1,694 crore with an operating margin of 6.2%, supported by the increase in sales volumes and firm gold realisations. In line with the strong operational performance in H1 FY2023, MVGJL is likely to register improvement in revenue in FY2023 owing to an expected increase in volumes and opportunities presented by a large share of unorganised players in the industry. Further, ICRA notes that MVGJL has fund-raising plans via an initial public offer (IPO) in the near term for which the company will file red herring prospectus with SEBI. Post the fund infusion, MVGJL’s capital structure and liquidity position are expected to improve further. The ratings continue to favourably factor in the established retail presence of MVGJL in Andhra Pradesh and Telangana and a shift in demand towards organised players, supported by greater push for formalisation of the industry.

The rating remains constrained by the high working capital intensity of operations with large inventory holding requirements, which result in higher dependence on working capital loans, thus keeping total outside liabilities (TOL) and debt coverage indicators at moderate levels. The working capital utilisation against the sanctioned consortium limits also remained high at 91% as on January 31, 2023, thus exerting some pressure on liquidity. 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 2.9 times in FY2023. Further, the ratings also remain constrained by the geographical concentration risks as 90% of its revenues is generated from Andhra Pradesh. and intense competition from other players, which limits pricing flexibility and exposes its earnings to gold price fluctuations.

The Stable outlook on the 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

Healthy improvement in financial performance in FY2022 – MVGJL witnessed a sharp improvement in FY2022 with a ~18% growth in OI, supported by a ~14% increase in gold sales volumes and steady gold realisation. Apart from gold, studded sales also grew by ~55%. With a steady addition of new stores in the recent years, MVGJL’s operating income witnessed a compounded annual growth rate (CAGR) of ~10% during FY2017-22. In H1 FY2023, the revenue stood healthy at ~Rs. 1,022 crore compared to Rs. 764 crore in the corresponding period of the last fiscal. Focus on cost control measures and operating leverage with increased scale of operations had resulted in a gradual improvement of operating margin, which rose to 6.2% in FY2022 from 5% in FY2017. Going forward, the operating profit margins are expected to remain steady at ~6-7%. With an improvement in revenues and profitability, MVGJL's debt coverage indicators also improved in FY2022 with an interest cover of ~2.5 times.

Established market position – 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. The same is illustrated by the steady performance witnessed over the years.

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 MVGJL 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 MVGJL's margin expansion over the medium term.

Credit challenges

High working capital intensity – Jewellery retailing 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 stood at ~180[1] in end-March-2022 due to higher valuation of the inventory amid rising gold prices. 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 headroom in the bank lines, thus exerting pressure on liquidity. However, MVGJL has filed DRHP with SEBI for raising of funds through IPO. The same has been cleared by SEBI. Post the fund infusion, capital structure and the liquidity position are expected to further improve.

Nonetheless, 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.

Earnings exposed to geographical concentration risks and intense competition – The company faces relatively higher 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 its pricing flexibility and exposes earnings to volatile gold prices.

Liquidity position: Adequate

MVGJL'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. 40 crore as on December 31, 2022. While the average utilisation of its fund-based limits over the last 12 months period ending January 2023 was high at 91%, it has reduced in the recent months to around 89%, supported by the low-cost loan under the Emergency Credit Line Guarantee Scheme (ECLGS), drawn in April 2022. MVGJL is expected to generate cash accruals of more than Rs. 80 crore in FY2023, which would be adequate to meet its incremental working capital requirements, debt repayment obligations of ~ Rs. 17 crore and moderate capital expenditure of Rs. 3-5 crore.

[1] Based on ICRA's calculation

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 MVGJL's coverage metrics and liquidity position. Specific credit metrics that could lead to an upgrade of rating include interest coverage above 3.5 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 rating include an interest coverage of less than 2.25 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 ratings are based on the standalone financial profile of the company.

About the company

Manoj Vaibhav Gems 'N' Jewellers Limited (MVGJL) 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 and further converted into a public limited company in May 2022 and was renamed as Manoj Vaibhav Gems 'N' Jewellers Limited. The company retails gold jewellery and operates through 11 stores spread across Andhra Pradesh and Telangana. MVGJL opened a franchise store in Srikakulam, Andhra Pradesh in FY2020 and another store at Vizianagaram, Andhra Pradesh in FY2021.

Key financial indicators

	FY2021	FY2022
Operating Income (Rs. crore)	1,433.6	1,693.9
PAT (Rs. crore)	20.7	43.7
OPBDIT/OI (%)	5.7%	6.2%
PAT/OI (%)	1.4%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.3
Total Debt/OPBDIT (times)	6.0	4.8
Interest Coverage (times)	1.9	2.5

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 (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					March 6, 2023	November 28, 2022	August 19, 2021	July 07, 2020	-
1	**Fund based/ CC**	Long Term	361.00	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**	-
2	**Fund based – Term Loans**	Long Term	83.47	83.4	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB (Stable)**	-	-
3	**Unallocated**	Long Term	5.53	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Negative)**	-

Source: Company; Amount in Rs. crore

Complexity level of the rated instrument

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

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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	361.00	[ICRA]BBB(Stable)
NA	**Unallocated**	-	-	-	5.53	[ICRA]BBB(Stable)
NA	**Term Loan**	January 2021	9%	FY2028	83.47	[ICRA]BBB(Stable)

Source: *Company*

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

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

ANALYST CONTACTS

Jayanta Roy
+91-33-71501120
jayanta@icraindia.com

Kaushik Das
+91-33-71501100
kaushikd@icraindia.com

Vipin Jindal
+91 124 4545355
vipin.jindal@icraindia.com

Bharat Toplani
+91 98196 47744
bharat.toplani@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

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

info@icraindia.com

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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

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