

July 07, 2021

Manoj Vaibhav Jewellers Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	38.00	38.00	[ICRA]BB (Stable)/reaffirmed; Outlook revised to Stable from Negative
Long-term - Unallocated facilities	2.00	2.00	[ICRA]BB (Stable)/reaffirmed; Outlook revised to Stable from Negative
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation and revision in the outlook to Stable reflects the improvement in performance of Manoj Vaibhav Jewellers Private Limited (MVJPL) in the recent quarters and the expected steady performance over the medium term on the back of favourable demand conditions and increasing focus on improving its product portfolio with higher share of studded jewellery. Post the pandemic-induced demand disruptions in H1 FY2021, improved demand scenario and customer sentiments helped MVJPL in generating a healthy revenue growth of 23% in the last fiscal. However, its earnings remained thin on the back of its continued low operating margins of 4% (limited by competition and high operating costs). MVJPL's revenues and margins are likely to witness some growth over the medium term on the back of an expected improvement in the share of organised players, its established market position and higher focus on improving the share of silver and studded jewellery. Despite the same, its credit profile is likely to remain constrained due to high dependence on external debt to fund its working capital requirements on the back of its relatively low inventory turnover. MVJPL's interest coverage ratio is estimated to be at around 1.9 times in FY2021 and is likely to remain at modest levels of around 2 times in FY2022, limited by high debt levels and low profitability. The rating also considers the extensive experience of the promoters in the jewellery retailing business, reputed brand and strong leadership position in jewellery retailing in Eluru, Andhra Pradesh. Further, the rating also factors in the geographical concentration risks as 100% of its revenues are generated from Eluru. Intense competition from other players limits pricing flexibility and exposes its earnings to gold price fluctuations.

Key rating drivers and their description

Credit strengths

Established market position – The company enjoys good reputation and continues to enjoy leadership position in the Eluru market, which increased footfalls and revenues over the years. The same is illustrated by the steady performance witnessed over the years and a healthy revenue growth generated by the company in FY2021 despite the adverse impact of the pandemic on its performance in the first half of the fiscal.

Improving formalisation 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 MVJPL over the years. The company has been consistently gaining market share in the Eluru market with focused marketing efforts. An expected increase in the share of studded jewellery is likely to drive MVJPL's performance over the medium term.

Credit challenges

Leveraged capital structure and moderate coverage metrics – MVJPL’s leverage indicators remained at modest levels, characterised by an estimated total debt to operating profits and total outside liabilities to tangible net worth of around 6.8 times and 2.9 times, respectively, in FY2021 on the back of working capital intensive nature of operations. In addition to the high dependence on external debt for funding its stock levels, low operating margins have also resulted in a modest level of coverage indicators. The coverage indicators are expected to improve marginally in the coming quarters with a growth in earnings and no incremental borrowings expected.

Exposed to intense competition and regulatory risks – With a single showroom and the principal area of operations restricted to Eluru, the company faces high geographical concentration risk. Its established brand presence in Eluru and strong customer base supported its performance over the years, but it remains exposed to increasing competition from organised and unorganised players operating in Eluru and the adjoining markets, limiting pricing flexibility and margins. Further, increased regulatory intervention in the jewellery industry in the recent years impacted the demand and supply scenario in the industry. The company will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Liquidity position: Stretched

The company’s liquidity position remains stretched due to its thin earnings from operations and high working capital requirements in the business. The utilisation levels of its working capital facilities remained high at an average of 98-99% over the last nine months ending June 2021. The same is despite the Covid-19 loans availed by the company in H2 FY2021, which have been utilised primarily towards meeting the incremental working capital requirements. While the company is likely to generate adequate cash accruals of around Rs. 2.5 crore in FY2022 to meet its debt repayment obligations of ~Rs. 1.5 crore, its dependence on external borrowings is expected to remain high to meet its working capital requirements.

Rating sensitivities

Positive factors – A sustained growth in the company’s scale of operations and earnings coupled with an improvement in the working capital cycle, resulting in better credit metrics and liquidity position, could result in a rating upgrade. Specific credit metrics that could lead to an upgrade of rating include interest coverage above 2.2 times.

Negative factors – Pressure on the ratings could arise in case of any sharp decline in earnings or an elongation of its working capital cycle, which would result in a deterioration of its credit metrics and liquidity position. Specific credit metrics that could lead to a downgrade include interest coverage below 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

MVJPL was established as a partnership firm named Vaibhav Jewellers in 1991 in Eluru, Andhra Pradesh, which was subsequently converted into a proprietary concern. Vaibhav Jewellers was converted into a private limited company in April 2014. The company operates a single retail jewellery store spread across 35,000 sq. ft. in Eluru, Andhra Pradesh and is promoted by Mr. Amarendra Gandhi and his family members.

Key financial indicators (audited)

MVJPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	151.5	139.6
PAT (Rs. crore)	1.5	1.6
OPBDIT/OI (%)	4.2%	4.6%
PAT/OI (%)	1.0%	1.2%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	2.9
Total Debt/OPBDIT (times)	6.5	6.4
Interest Coverage (times)	1.7	1.7

Source: MVJPL; 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 (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in July 07, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund Based/ CC	Long Term	38.00	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)	-	[ICRA]BB (Stable)
2	Unallocated	Long Term	2.00	-	[ICRA]BB (Stable)	[ICRA]BB (Negative)	-	[ICRA]BB (Stable)

Source: MVJPL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund Based/ Cash Credit	Simple
Long-term – Unallocated facilities	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	38.00	[ICRA]BB (Stable)
NA	Unallocated	-	-	-	2.00	[ICRA]BB (Stable)

Source: MVJPL

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Balaji M

+91 44 4596 4317

Balaji.m@icraindia.com

Pavethra Ponniah

+91 44 4596 4314

pavethrap@icraindia.com

Prateek Pasari

+91 40 4067 6517

prateek.pasari@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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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