

Mangal & Mangal

February 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Working Capital Facilities	30.00	20.00	[ICRA]BBB (Stable); Reaffirmed
Fund-based-Proposed Facilities	-	10.00	[ICRA]BBB (Stable); Reaffirmed
Total	30.00	30.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 20.00-crore¹ (reduced from Rs. 30.00 crore) working capital facilities and proposed facilities of Rs. 10.00 crore (enhanced from Nil) of Mangal & Mangal (Mangal or the firm)². The outlook on the long-term rating is Stable.

Rationale

The rating remains supported by the extensive experience of the promoters and the established market position of the firm in retailing jewellery, household utensils, furniture and electronic appliances in Trichy (Tamil Nadu). Mangal's financial profile is strong with healthy accruals, comfortable debt indicators and strong liquidity position. With the demand outlook for jewellery retail business remaining favourable, particularly for organised players with increasing formalisation of the sector, Mangal's growth prospects are strong.

However, the rating remains constrained by the high geographical concentration risk and intensifying competition in the Trichy region due to the entry of large and established jewellery brands in the recent years, which limits the pricing flexibility. The rating also considers the increasing regulatory interventions on the industry, which has affected the jewellery demand in the past, apart from the price volatility risks. The rating remains tempered by the capital withdrawal risk and risks on account of low compliance and disclosure standards, inherent to its partnership nature of business and also to risks associated with the cash-and-carry jewellery retail operations.

Outlook: Stable

ICRA expects Mangal's financial profile to be supported by the sustained jewellery demand underpinned by the cultural affinity for gold and the firm's continued market leadership in the Trichy region. The outlook may be revised to 'Positive' if the increasing scale of operations and improved working capital position strengthens the financial profile. The outlook may be revised to 'Negative' with any adverse cash flows affecting the liquidity position of the firm.

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

Key rating drivers

Credit strengths

Extensive experience of the promoters - Mangal was promoted by Mr. P Mookan along with his friends and relatives in 1991 as a utensils retailing firm and later diversified into jewellery retail in 2000. Its longstanding presence over three decades has enabled the firm in attaining market leadership in the Trichy region, despite stiff competition, especially with entry of other established players in Trichy in the recent years.

Strong brand equity and focussed marketing initiatives drive footfalls - Mangal operates out of three showrooms in adjacent buildings at a prominent location in Trichy. The strong brand equity ensures customer loyalty and has supported the business growth in the recent years. Its focused marketing initiatives and affordable jewellery saving schemes targeting the middle-class customers drives footfalls and counters competition.

Healthy financial profile characterised by conservative capital structure and comfortable coverage indicators - Mangal's financial profile remains comfortable with a conservative capital structure marked by high partners' capital and low debt levels (comprising mainly unsecured promoter loans and working capital loans). The total outside liability to operating profit ratio improved to 1.2 times as on March, 2017, as against 2.0 times as on March, 2016. The liquidity position remains supported by the large unencumbered cash balances and the average working capital utilisation rate of ~95% in the last one year.

Credit challenges

High geographical concentration risk and intense competition limits growth prospects - Mangal's operations are confined to the Trichy region, wherein the competition has increased in the last decade due to the entry of various leading jewellery brands, which also limits the pricing flexibility. While the sales promotion activities have supported Mangal in retaining its market leadership, the firm's proposed store expansion in the medium term is likely to mitigate the concentration risk to some extent.

Regulatory risks - The jewellery retail industry has been witnessing an increased regulatory intervention, in the last three years, which impacted the operating environment and consequently the performance of jewellers. The measures like 20/80 restriction on imports, mandatory PAN card-disclosure requirement for purchases up to Rs. 2 lakh, imposition of excise duty, currency demonetisation, inclusion of the jewellery sector under the Prevention of Money Laundering Act (albeit for brief period) had its effect on both demand and supply.

Compliance risk inherent to partnership nature of business - Mangal being a partnership firm is exposed to capital withdrawal risk, low compliance and disclosure standards and also to risks associated with the cash-and-carry jewellery retail operations. The regulatory push towards transparency is likely to mitigate this risk, going forward.

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 firm:

Promoted by Mr. P. Mookan and his friends and relatives in 1991, Mangal is involved in the business of retailing jewellery, household utensils, furniture and electronic appliances. The firm commenced retailing in utensils in 1991. Subsequently, the firm diversified its operations into jewellery retailing in 2000 and electronic appliances in 2007. It has three showrooms (measuring 47,000 sq. ft. in aggregate) in adjacent buildings, located in a commercial street in Trichy. Jewellery accounts for a major portion of the firm's revenues, with ~81% revenue contribution in FY2017. Besides Mangal, the promoters have business interests in two other entities viz., Mangal Metal Mart and Mangal Enterprises, which are involved in retailing brass / aluminium utensils, stationery items etc.

In FY2017, the firm reported a net profit of Rs. 81.4 crore on an operating income (OI) of Rs. 978.6 crore, as compared to a net profit of Rs. 29.4 crore on an OI of Rs. 467.0 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	467.0	978.6
PAT (Rs. crore)	29.4	81.4
OPBDIT/ OI (%)	10.2%	13.0%
RoCE (%)	33.70%	58.27%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.2	0.3
Interest Coverage (times)	25.4	51.5
NWC/ OI (%)	23.3%	17.6%

Source: Firm

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 November 2016	Date & Rating in FY2015 December 2014	Date & Rating in FY2014 November 2013
1 Cash Credit	Long Term	20.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Proposed facilities	Long Term	10.00	-	[ICRA]BBB (Stable)	-	-	-

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	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	Proposed facilities	NA	NA	NA	10.00	[ICRA]BBB (Stable)

Source: Mangal & Mangal

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