

Press Release
Prakash Gold Palace Private Limited
 June 02, 2020
Rating Reaffirmed & Withdrawn



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|-------------------------------------|------------------------------------------------|
| Total Bank Facilities Rated* | Rs. 250.00 Cr. (Reduced from Rs.425.00 Cr.) |
| Long Term Rating | ACUITE BB/Stable (Reaffirmed & Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB** (read as **ACUITE double B**) on the Rs.250.00 cr. bank facilities of PRAKASH GOLD PALACE PRIVATE LIMITED (PGPPL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE BB** (read as **ACUITE double B**) on the Rs.162.50 cr. bank facilities of PRAKASH GOLD PALACE PRIVATE LIMITED (PGPPL). The rating is being withdrawn on account of request received from the company.

About the company

The Chennai-based PGPPL was established in 1980, as a proprietorship concern by Mr. Prakash Chand Jain. Later in 1998 the constitution was changed to private limited. Mr. Mukesh Kumar Jain joined as Additional Director. The company is engaged in the manufacturing, wholesale, retail and exports of gold, silver and diamond jewellery.

Analytical Approach

For arriving at the rating, Acuité has considered the full consolidation of PGPPL and that of its wholly owned subsidiary viz. Prakash Gold Palace (FZE) and its associate company, Abhilasha Jewellers Private Limited (AJPL) together referred to as the PGP Group. Further, Acuité has consolidated the business and financial risk profiles of the group. The consolidation is in view of the common ownership and operational linkages within the group. Extent of Consolidation: Full

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The Promoter and Managing Director, Mr. Prakash Chand Jain has experience of over four decades in the gems and jewellery industry while Mr. Abhilash Mutha has experience of over two decades. The promoters are well supported by an experienced second line of management including Mrs. Mamtha Mutha, Mr. Abhilash Mutha, and Mr. Murugan Pillai. The promoters have been able to establish healthy relations with reputed clients such as Kalyan Jewellers, Lalita Jewellers, Avr Swarna Mahal Jewellery Private Limited to name a few.

• Moderate financial risk profile despite healthy net worth base

The group has a moderate financial risk profile marked by healthy net worth of Rs.191.53 crore as on 31st March 2019 as against Rs.175.14 crore as on 31st March 2018. The gearing (Debt-Equity) of the group stood comfortable at 1.59 times as on 31st March 2019 as against 1.93 times as on 31st March 2018. The total debt of the group as on 31st March 2019 stood at Rs.305.28 crore which comprises of long term debt of Rs.0.02 crore and short term debt of Rs.305.26 crore. Interest Coverage Ratio of 1.82 times in FY2019 as against 1.80 times in FY2018 and DSCR of 1.56 times in FY2019 as against 1.59 times in FY2018. NCA/ TD stood same at 0.05 times as on March 31, 2019 as well as on March 31, 2018. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood at 1.78 times in FY2019 as against 2.34 times in FY2018. Any further higher-than-expected deterioration in financial risk profile of the group will remain a key rating sensitivity factor.

Weaknesses

- **Working capital intensive nature of operations**

Prakash Group operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 122 days for FY2019 as against 114 days in FY2018. This is majorly on account of high inventory days of 73 for FY2019 as against 64 days in the previous year. High GCA days has led to high utilization of bank lines for both PGPL and AJPL which stood at an average of ~92 per cent and ~99 per cent respectively for last 10 months ending January 2020. Further, Acuité believes on account of outbreak of COVID – 19, this is expected to slowdown the discretionary spending of the consumers and hence the revenues and profitability of the group is expected to be impact and the working capital cycle is also expected to elongate majorly on account of piling up in inventory levels. Further, adequate maintenance of liquidity will be a key sensitivity factor.

- **Uneven revenue trend and operating margins**

The group's revenues profile has remained volatile for last three years ending FY2019. The group is experiencing a declining scale of operations marked by revenue of Rs.1391.99 crore in FY2019 as against Rs.1673.30 crore in FY2018. The revenue in FY2019 has declined by 16.81 percent from the previous year. Further, the group has achieved a revenues of ~Rs.850 crore for FY2020. The operating margins stood at 3.62 percent in FY2019 as against 2.78 percent in FY2018. PAT margin has improved from 0.90 percent in FY2018 to 1.12 percent in FY2019. Acuité believes, the revenues of the group is expected further decline in FY2021 on account of outbreak of COVID – 19 followed by lockdown across the nation. This will impact, discretionary spending of the consumers coupled with significant increase in gold prices.

- **Susceptibility to timely revival of consumer spending amidst the ongoing economic slowdown; COVID -19 like calamities and intense competition impose near term challenges**

The group has a presence in gems and jewellery segment, the business profile is linked to level of discretionary spending pattern of the consumer. Any improvement in the economic parameters such as per capita income, high level of disposable income, improved job creation etc. leads to higher level of spending. Conversely, in the event of prolonged economic slowdown due to myriad factors like natural calamities, there could be job losses and consequently slowdown in discretionary spending by the consumers. While the challenges will be more acute in the discretionary segments, even players like Prakash Group who has a presence on Gems and jewellery Sector will not be insulated from these economic events. The competition in the segment will have a bearing on the future growth trajectory of such players.

The raw material cost of the group constitutes to ~94.37 per cent of its total operating income. The group's profitability is susceptible to gold price movements. The group also operates in a highly competitive and fragmented gems and jewellery industry and faces competition from a large number of organised as well as unorganised players.

Liquidity position: Stretched

The group's liquidity is stretched marked by elongation in working capital in current fiscal year, reduction in working capital facilities by the banker leading to high working capital utilisation of the group. However, the group does not avail any long term loan and is not expected to avail any in near to medium term. The cash accruals of the group is expected to remain in the range of Rs.7 crore - Rs.8 crore for the period FY2021 and FY2022 as against no long term repayment. The group maintains unencumbered cash and bank balances of Rs.7.94 crore as on March 31, 2019. The current ratio stands modest at 1.39 times as on March 31, 2019. The average bank limit utilization for the past 10 months ending January 2020 is ~ 92 percent for PGPL and ~99 per cent for AJPL. The ability of the group to improve its liquidity profile while managing its working capital cycle will be key rating sensitivity.

Outlook: Stable

Acuité believes that the outlook of the group will remain stable over the medium term on account of its experienced management and track record of operation and moderate financial risk profile. The outlook may be revised to 'Positive' if the group achieves higher-than-expected revenue and profitability while maintaining working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected decline in revenue, profit margins or deterioration in working capital cycle and financial risk profile leading to liquidity pressures.

About the Group - Key Financials (Consolidation)

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 1391.99 | 1,673.30 |
| PAT | Rs. Cr. | 15.55 | 15.08 |
| PAT Margin | (%) | 1.12 | 0.90 |
| Total Debt/Tangible Net Worth | Times | 1.59 | 1.93 |
| PBDIT/Interest | Times | 1.82 | 1.80 |

Status of non-cooperation with previous CRA

None

Any other information

None

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|-----------|-----------------|------------------------------------|
| 07-May-20 | Cash Credit | Long term | 262.50 | ACUITE BB / Stable (Downgraded) |
| | Export Packing Credit | Long term | 75.00 | ACUITE BB / Stable (Downgraded) |
| | Working capital demand loan | Long term | 25.00 | ACUITE BB / Stable (Downgraded) |
| | Proposed Cash Credit | Long term | 62.50 | ACUITE BB / Stable (Downgraded) |
| 28-Mar-19 | Cash Credit | Long term | 262.50 | ACUITE BB+ / Negative (Downgraded) |
| | Export Packing Credit | Long term | 75.00 | ACUITE BB+ / Negative (Downgraded) |
| | Working capital demand loan | Long term | 25.00 | ACUITE BB+ / Negative (Downgraded) |
| | Proposed Cash Credit | Long term | 62.50 | ACUITE BB+ / Negative (Downgraded) |
| 22-Feb-18 | Cash Credit | Long term | 262.50 | ACUITE BBB / Stable (Reaffirmed) |
| | Export Packing Credit | Long term | 75.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Working capital demand loan | Long term | 25.00 | ACUITE BBB / Stable (Reaffirmed) |
| | Proposed Cash Credit | Long term | 62.50 | ACUITE BBB / Stable (Reaffirmed) |
| 21-Oct-16 | Cash Credit | Long term | 175.00 | ACUITE BBB / Stable (Downgraded) |
| | Export Packing Credit | Long term | 75.00 | ACUITE BBB / Stable (Downgraded) |
| | Working capital | Long term | 25.00 | ACUITE BBB / Stable |

| | | | | |
|-----------|-----------------------------|-----------|--------|--------------------------------|
| | demand loan | | | (Downgraded) |
| | Proposed Cash Credit | Long term | 150.00 | ACUITE BBB / Stable (Assigned) |
| 16-Jul-15 | Cash Credit | Long term | 175.00 | ACUITE BBB+/Stable (Assigned) |
| | Export Packing Credit | Long term | 75.00 | ACUITE BBB+/Stable (Assigned) |
| | Working capital demand loan | Long term | 25.00 | ACUITE BBB+/Stable (Assigned) |
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***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------------|------------------|----------------|----------------|----------------------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 185.00 (Reduced from Rs.262.50 Cr.) | ACUITE BB / Stable (Reaffirmed) |
| Export Packing credit | Not Applicable | Not Applicable | Not Applicable | 40.00 (Reduced from Rs.75.00 Cr.) | ACUITE BB / Stable (Reaffirmed) |
| Working capital demand loan | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BB / Stable (Reaffirmed) |
| Proposed fund based facility | Not Applicable | Not Applicable | Not Applicable | 162.50 | ACUITE BB (Withdrawn) |

Contacts

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About Acuité Ratings & Research: Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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