

Press Release

R K R GOLD PRIVATE LIMITED

November 02, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 90.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as SMERA BB minus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 90.00 crore bank facilities of R K R GOLD PRIVATE LIMITED. The outlook is 'Stable'.

RKR Gold Private Limited (RGPL) promoted by Mr. S V Sreenivasen, is engaged in the manufacturing of gold and diamond jewellery. The company also trades in bullion and caters largely to clients in Tamil Nadu. The company caters to clients in India and overseas (Middle East, Malaysia and Singapore). The manufacturing facilities are located at RS Puram and Coimbatore (Tamil Nadu). Plans are on to enhance capacity with a third unit at the same location.

Key Rating Drivers

Strengths

- **Experienced management and long standing presence in Tamil Nadu**

RGPL commenced operations in 1986. The ISO 9001-2008 certified jewellery manufacturing company is led by Mr. S.V. Sreenivasen and family with more than three decades of experience in the said line of business.

- **Diversified product portfolio**

The company manufactures a diversified range of jewellery products such as casted jewellery, tessellated marble jewellery, wooden jewellery, handmade jewellery and diamond jewellery. The product portfolio encompasses 45 different product ranges with more than 50,000 designs. The company caters to clients in India and also exports jewellery to the Middle East, Malaysia and Singapore markets.

- **Moderate scale of operations**

The scale of operations is moderate with operating income of Rs.1640.56 crore in FY2016-17 (Provisional) compared to Rs.1212.52 crore in FY2015-16. The revenue declined to Rs.299.58 crore in FY2016-17 (Provisional) from Rs.352.82 crore in FY2015-16 on account of decline in gold prices during the financial year. However the group revenue improved on account of bullion trading. RGPL, on a standalone basis registered revenue of Rs.91.57 crore from April 2017 - July 2017.

Weaknesses

- **Low profitability**

The profit margins are exposed to fluctuations in raw material prices. The group's 's operating margins declined to 0.79 percent in FY2016-17 (Provisional) from 1.09 percent in FY2015-16. Further, the PAT margins stood thin at 0.10 percent in FY2016-17 (Provisional) compared to 0.15 percent in FY2015-16.

- **Below average financial risk profile**

The RKR Group has below average financial risk profile marked by net worth of Rs.25.28 crore as on 31 March, 2017 (Provisional) compared to Rs.23.69 crore as on 31 March, 2016. The gearing stood at 2.82 times as on 31 March, 2017 (Provisional) as against 2.93 times as on 31 March, 2016. The total debt

includes long term loan of Rs.12.21 crore, unsecured loans from promoters of Rs.3.50 crore and short term working capital funds of Rs.55.58 crore as on 31 March, 2017 (Provisional). The Interest coverage ratio stood comfortable at 1.29 times in FY2016-17 (Provisional) compared to 1.37 times in FY2015-16. RGPL has debt obligation of Rs.4.10 crore in FY2017-18. The company plans to sell off its assets (land) which will generate adequate cash flows to pay its debt obligations. Further the average utilisation of cash credit facility stood at 99.56 percent ended July 2017. The current ratio stood at 1.09 times as on 31 March, 2017. SMERA believes that the financial risk profile in the medium term will remain below average on account of the debt obligation.

• Intense market competition

The company faces stiff competition from other jewellery manufacturers. Also, since the company exports its products, it is exposed to foreign exchange fluctuation risk. However, the company has not incurred forex losses in the past three years. The major raw material procured was gold bullion, the prices of which are highly volatile. Hence, adverse movements may affect profitability.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of RKR Gold Private Limited (RGPL) and RKR Gold Bullion Private Limited (RGBPL). Both the entities referred to as the RKR Group on account of the similarities in the lines of business, financial fungibility and common management.

Outlook: Stable

SMERA believes that RGPL will maintain a stable outlook in the medium term on account of its experienced management and long standing presence in Tamil Nadu. The outlook may be revised to 'Positive' in case the company registers better profitability while maintaining revenue growth that leads to better liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or further deterioration in the financial risk profile on account of higher debt funded working capital requirements.

About the Group

R K R Group established in 1986, is a Tamil Nadu based group engaged in the manufacturing of gold and diamond jewellery and bullion trading mainly in Tamil Nadu. The group comprises two entities viz. R K R Gold Private Limited (RGPL) and R K R Gold Bullion Private Limited (RGBPL). RGPL was engaged in bullion trading till 2013. RGBPL, incorporated in 2013 undertakes trading in bullion.

About the Rated Entity - Key Financials

On consolidated basis, the RKR Group reported net profit after tax (PAT) of Rs.1.58 crore on operating income of Rs. 1640.56 crore in FY2016-17 (Provisional) compared to PAT of Rs.1.84 crore on operating income of Rs.1212.52 crore in the previous year. The net worth stood at Rs.25.28 crore as on 31 March, 2017 (Provisional) compared to net worth of Rs.23.69 a year earlier.

Status of non-cooperation with previous CRA (if applicable)

ICRA in its press release dated December 30, 2016 has inter-alia mentioned the following 'ICRA has suspended the long term rating of [ICRA]B (pronounced ICRA B) assigned to the Rs.20.00 crore long term fund based facilities of RKR Gold Private Limited (RKR / the company). The suspension follows ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the Company. According to its suspension policy, ICRA may suspend any rating outstanding if in its opinion there is insufficient information to assess such rating during the surveillance exercise.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A4+

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ABOUT SMERA

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