

Press Release

R R Gold Palace Private Limited

November 20, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.62.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.62.00 crore bank facilities of R R GOLD PALACE PRIVATE LIMITED. The outlook is '**Stable**'.

Bangalore based R R Gold Palace Private Limited (RGPL) established in 2006 as a partnership concern and then in 2011 converted into a private limited. RGPL is promoted by Mr. R. Ramesh and Ms. G.S. Prabhalatha and is engaged in retailing of gold, silver, diamond and platinum jewellery. The promoters ventured into retailing of gold jewellery by setting up a showroom 'RR Gold Palace' in Malleswaram (Bangalore), under partnership model and later converted to company. RR Gold Palace expanded its Malleswaram showroom to a separate section for a wide range of silver articles, jewellery and even corporate gifts. RGPL opened its 2nd showroom at Jayanagar in April, 2012 and 3rd Showroom at Yelahanka in 2014.

Analytical Approach

Acuité has considered standalone business and financial risk profile of R R Gold Palace Private Limited (RGPL) to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

RGPL is being promoted by Mr. R. Ramesh and Ms. G.S. Prabhalatha, both have over a decade of experience in the retailing of gold business. Further, having a considerable amount of presence in the aforementioned industry has enabled the company to maintain healthy relationship with its customers as well as with its suppliers.

Acuité believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit OCPL over the medium term.

Weaknesses

- **Working Capital intensive nature of Operations**

Operations of RGPL are working capital intensive marked by Gross Current Assets (GCA) of 288 days in FY2019 as compared to 215 days in FY2018 and 127 days in FY2017. This is on the account of inventory getting piled up due to reducing demand in the market. Inventory holding period stood at 285 days in FY2019, 201 days in FY2018 and 125 days in FY2017. However, current ratio stood moderate at 1.24 times as on 31st March, 2019.

Acuité believes that the working capital operations of RGPL will continue to remain intensive on account high inventory holding period.

- **Intense Competition in the retail segment and reducing scale of operations**

The company is engaged in the retailing of jewelry with intense competition from bigger players. Due to the high competitive intensity, the pricing flexibility of the company is limited, capping margins of the company. Further the operating income of the company has declined substantially from Rs.308.05 crore in FY2017 to Rs.182.29 crore in FY2019. However revenue in FY2019 stood more or less same as compared to Rs.187.43 crore in FY2018. Going forward Acuité expects that the revenue will remain in the same range.

• Average Financial Risk Profile

RGPL has an average financial risk profile marked by average net worth, average debt protection metrics and high gearing. The net worth of the firm stood at Rs.25.27 crore as on 31 March, 2019 as against Rs.24.45 crore as on 31 March, 2018. The gearing level (debt-equity) stood at 2.72 times as on 31 March, 2019 as against 2.98 times as on 31 March, 2018. The total debt of Rs.68.63 crore as on 31 March, 2019 consists of unsecured loans of Rs.7.57 and working capital borrowings of Rs.61.06 crore. The interest coverage ratio (ICR) stood stable at 1.23 times for the last two years. TOL/TNW (Total Outside Liabilities by Total Net Worth) stood high at 5.00 times as on 31st March, 2019 as against 3.90 times as on 31st March, 2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.02 times in FY2019. Debt to EBITDA stood at 6.92 times in FY2019 as against 6.77 times in FY2018.

Liquidity Profile: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. RGPL generated cash accruals of Rs.1.42 crore in FY2019 against no debt obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.1.67 crore to Rs.1.87 crore during FY2020-22 against no repayment obligations for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 288 days in FY2019. Company maintains unencumbered cash and bank balances of Rs.6.09 crore as on 31 March 2019. The current ratio stands at 1.24 times as on 31 March 2019.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook on RGPL's rated facilities will remain 'Stable' over the medium term on account of the company's experienced management in the gold retailing industry. The outlook may be revised to 'Positive' in case of more than expected growth while maintaining the margins. Conversely, the outlook may be revised to 'Negative' in case of adverse business scenario impacting the revenues or profitability.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	182.29	187.43	308.05
EBITDA	Rs. Cr.	9.69	10.57	11.75
PAT	Rs. Cr.	0.82	0.88	1.20
EBITDA Margin	(%)	5.31	5.64	3.82
PAT Margin	(%)	0.45	0.47	0.39
ROCE	(%)	9.79	10.20	11.24
Total Debt/Tangible Net Worth	Times	2.72	2.98	3.33
PBDIT/Interest	Times	1.23	1.23	1.24
Total Debt/PBDIT	Times	6.92	6.77	6.58
Gross Current Assets (Days)	Days	288	215	127

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Aug-2019	Cash Credit	Long term	50.00	ACUITE BB-/ Stable (Indicative)
	Cash Credit	Long term	12.00	ACUITE BB-/ Stable (Indicative)
04-July-2018	Cash Credit	Long term	50.00	ACUITE BB-/ Stable (Assigned)
	Cash Credit	Long term	12.00	ACUITE BB-/ Stable (Assigned)

***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	50.00	ACUITE BB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Deepesh Pamnani Analyst - Rating Operations Tel: 011-49731315 deepesh.pamnani@acuite.in	

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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