

Press Release

R R Gold Palace Private Limited

November 17, 2021

Rating Downgraded



| Product | Net Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|-------------------|----------------------|-----------------------|-------------------|
| Bank Loan Ratings | 62.00 | ACUITE C Downgraded | - |
| Total | 62.00 | - | - |

Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE B+**; Issuer not-cooperating (read as **ACUITE B plus**)' on the Rs.62 crore bank facilities of R R Gold Palace Private Limited (RRGPPL).

The downgrade takes into account the recent delays in the debt servicing of a loan not rated by ACUITE.

About the Company

Established in 2006 as a partnership firm by Mr. R. Ramesh and Mrs. G.S. Prabhalatha, R R Gold Palace was later converted into a private limited company in 2011 and renamed as R R Gold Palace Private Limited (RRGPPL). The company is engaged in the retailing of finished gold jewellery, silver jewellery and other precious stones at its 3 showrooms located in Balgare, each at Malleshwaram, Jayanagar and Yelahanka.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of RRGPPPL while arriving at the rating.

Key Rating Drivers

Strengths

Long track record of operations with experienced management

RRGPPL possesses a long track record of operations of over 15 years in the retailing of finished gold jewellery, silver jewellery and other precious stones. On the other hand, the finished jewellery is procured from various cities across Maharashtra, Karnataka, Gujarat, Kerala, Tamil Nadu, West Bengal, etc. The retail sales through wholesale purchase of finished jewellery comprises 80-85% of its annual revenues, whereas the balance comprises those outsourced for manufacturing to the artisans located in Bangalore. The gold jewellery comprises 95.53% of the net sales in FY21 (Prov.) as against 94.38% in FY20. Over the years of its long-running operations, RRGPPPL has developed long-term relationships with its customers, suppliers and other stakeholders.

The overall operations of RRGPPPL are looked after by the promoters – Mr. R. Ramesh along with his son – Mr. Dheeraj Tapse, who possess a total experience of over 2 decades and 9 years respectively. Prior to the establishment of the company, Mr. R. Ramesh was engaged in the family business in a retail jewellery store along with his father and brother, whereas later he established RRGPPPL in 2006. On the other hand, Mr. Dheeraj Tapse joined RRGPPPL in 2012. Hence, both of them have gained their requisite experience majorly in the due course of their

association with RRGPPPL.

Continuously improving profit margins albeit low net profit margins

The EBITDA margin of RRGPPPL stood moderate at 7.17% in FY21 (Prov.) as against 6.29% in FY20. Moreover, the EBITDA margin has been continuously improving from 5.20% in FY19 to 6.29% and 7.17% in FY20 and FY21 (Prov.) respectively owing to continuously decreasing proportionate material consumption costs on the back of increased focus on higher margin

products than higher volumes, on account of increased focus on the elite class customers. Furthermore, the selling expenses have also been decreasing continuously over FY19-FY21 (Prov.) owing to the company's strategy of cutting down on discounts in order to improve the profit margins. Despite moderate EBITDA margin, the PAT margin stood low at 0.55% in FY21 (Prov.) as against 0.36% in FY20 owing to high interest costs.

Weaknesses

Continuously declining scale of operations albeit increase in H1FY22

The scale of operations of RRGPPPL have been continuously declining with the operating income having declined from Rs.186.13 crore in FY19 to Rs.147.19 crore and Rs.129.84 crore in FY20 and FY21 (Prov.) respectively owing to continuously declining sales quantity on the back of increased focus on higher margin products than higher volumes, on account of increased focus on the elite class customers. Moreover, in H1FY21, the company's operations were hit by the COVID-19 pandemic situation, wherein the net sales declined from Rs.41.12 crore in H1FY20 to Rs.26.33 crore in H1FY21. However, from FY21, the company changed its strategy from focusing on the elite class customers to the middle class customers, which translated into revenues only from H2FY21, wherein the net sales stood almost stable at Rs.103.46 crore as against Rs.106.06 crore in H2FY20. Given this, the net sales increased significantly from Rs.41.12 crore and Rs.26.33 crore in H1FY20 and H1FY21 respectively to Rs.138.39 crore in H1FY22.

Moderately weak financial risk profile

The capital structure of RRGPPPL stood leveraged with an overall gearing of 2.61 times as on March 31, 2021 (Prov.) as against 2.51 times as on March 31, 2020. Moreover, the same deteriorated marginally in FY21 (Prov.) over FY20 owing to increase in debt levels. The total debt increased from Rs.64.72 crore as on March 31, 2020 to Rs.69.20 crore as on March 31, 2021 (Prov.) owing to availment of COVID-19 loans worth Rs.6.46 crore outstanding as on March 31, 2021 (Prov.). Given this, coupled with high interest costs and low profitability, the debt coverage indicators also stood moderately weak with moderately weak interest coverage and DSCR of 1.16 times and 1.13 times respectively in FY21 (Prov.) as against 1.14 times and 1.11 times respectively in FY20.

Recent delays in debt servicing obligations led by stretched liquidity position

The operations of RRGPPPL are highly working capital intensive in nature with funds of over 400-500 days blocked in inventory. The inventory holding period stood elongated at 482 days in FY21 (Prov.) as against 401 days and 279 days in FY20 and FY19 respectively, whereas the same have been continuously elongating over FY19-FY21 (Prov.) owing to slower inventory turnaround on the back of a continuous decline in the scale of operations over the same period. Moreover, the company was not successful in catering to the elite class customers, thereby leading to the elongation in the inventory holding period. Given this, The GCA days and WC cycle also stood elongated at 451 days and 290 days respectively in FY21 (Prov.) as against 403 days and 219 days respectively in FY20 and 282 days and 180 days respectively in FY19, whereas the same have been continuously elongating over FY19-FY21 (Prov.) with the continuous elongation in the inventory holding period. Given this, the liquidity profile of the company stood poor marked by delays in the debt servicing of a loan not rated by ACUTE, for over a week, starting from September 30, 2021.

Presence in highly competitive & fragmented industry with regulatory challenges

The country's gems and jewellery sector is highly fragmented. The retail segment has high

dominance of unorganized players, who enjoy around 70% market share. While in case of the manufacturing segment, the dominance of unorganized players is even higher at around 90%. Moreover, increased regulatory intervention such as gold hallmarking, requirement of PAN, etc. impact the demand-supply trend in the sector. Furthermore, the fluctuation in gold prices also impact the demand for gold.

Liquidity Position: Poor

The liquidity profile of RRGPPPL stood poor marked by delays in the repayment of the CECL loan of SBI, wherein the installment due on September 30, 2021 was repaid on October 7, 2021. Hence, the account was classified as SMA-0 by SBI on September 30, 2021 and was converted to Standard on October 7, 2021. This is led by frequent overdrawals in the cashcredit account of SBI, wherein the overdrawals got regularized within a week, whereas in case of BOB, the CC utilization is almost full in the last 6 months ended September 2021. Moreover, in the cash credit account of BOB, there had been continuous overdrawals from end of April 2021 to end of June 2021 owing to poor operational performance on the back of the impact of COVID-19 pandemic situation. The aforementioned stretched liquidity position is mainly attributable to the elongated inventory days of 482 days in FY21 (Prov.) as against 401 days in FY20. On the other hand, the current ratio stood at 1.25 times as on March 31, 2021 (Prov.) as against 1.19 times as on March 31, 2020.

Rating Sensitivities

- Regularization of debt servicing track record.
- Improvement in the overall liquidity position.

Material Covenants

None

Key Financials

| Particulars | Unit | FY 21 (Provisional) | FY 20 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 129.84 | 147.19 |
| PAT | Rs. Cr. | 0.72 | 0.53 |
| PAT Margin | (%) | 0.55 | 0.36 |
| Total Debt/Tangible Net Worth | Times | 2.61 | 2.51 |
| PBDIT/Interest | Times | 1.16 | 1.14 |

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

Issuer not-cooperating by ICRA as per its press release dated September 11, 2020

Any other information

Not Applicable

Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|--------------------------------|
| 01 Feb 2021 | Cash Credit | Long Term | 50 | ACUITE B+ (Downgraded and INC) |
| | Cash Credit | Long Term | 12 | ACUITE B+ (Downgraded and INC) |
| 20 Nov 2019 | Cash Credit | Long Term | 12 | ACUITE BB- (Reaffirmed) |
| | Cash Credit | Long Term | 50 | ACUITE BB- (Reaffirmed) |
| 19 Aug 2019 | Cash Credit | Long Term | 50 | ACUITE BB- (Indicative) |
| | Cash Credit | Long Term | 12 | ACUITE BB- (Indicative) |
| 04 Jul 2018 | Cash Credit | Long Term | 50 | ACUITE BB- Stable (Assigned) |
| | Cash Credit | Long Term | 12 | ACUITE BB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Size Of Issue | Rating |
|---------------------|----------------------------------|------------------|----------------|----------------|---------------|----------------------------------|
| State Bank of India | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 45.00 | ACUITE C Downgraded (from B+) |
| Bank of Baroda | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE C Downgraded (from B+) |
| Other | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE C Downgraded (from B+) |

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