

## Press Release

### Waman Hari Pethe Sons Private Limited

December 10, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.170.00 Cr.
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-** (read as **ACUITE A minus**)' on the Rs.170.00 crore bank facilities of Waman Hari Pethe Sons Private Limited (WHPS). The outlook is '**Stable**'.

The operations of Waman Hari Pethe Sons Private Limited (WHPS) started in 2001 as a partnership firm Waman Hari Pethe Sons and later on in 2010 the constitution was changed to private limited and entity was renamed as Waman Hari Pethe Sons Private Limited. The company is promoted by Mr. Subodh Pethe and Mrs. Sonali Pethe. The promoter's family has been in the gold jewellery business for more than 100 years. Pursuant to a family arrangement Mr. Subodh Pethe has been operating under the brand name WHPS. WHPS HAS 12 retail jewellery stores across Mumbai, Thane, Pune, Solapur and Aurangabad

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the WHPS to arrive at this rating.

### Key Rating Drivers

#### Strengths

- Strong brand equity in Retail Jewellery Segment**

Waman Hari Pethe Sons Private Limited (WHPS) is among the leading gold jewellery retail chains in Maharashtra. The brand 'Waman Hari Pethe' has a history of more than 100 years and it enjoys a strong patronage especially among the Maharashtrian community. Mr. Subodh Pethe, a member of the original promoter family, along with his wife Mrs. Sonali Pethe operate a chain of 12 stores under the name 'WHPS'. WHPS started its operations in 2001 initially as a partnership firm and later on consequent to a change in constitution, was renamed as WHPS in 2010. WHPS's network of 12 stores is spread across Mumbai, Thane district, Pune, Solapur & Aurangabad. The company owns 4 out of these 12 stores and the balance 8 is on lease. WHPS specializes in Maharsahtrian gold and studded jewellery such as 'Mangalsutra', 'Bajubandh', and 'Pichodi' among other products. Mr. Subodh Pethe has recently been awarded a patent for Light Weight Jewellery, a segment which is expected to exhibit high growth over the near to medium term. Besides plain gold jewellery, the company also has established presence in diamond studded jewellery in tune with the changing consumer preferences. WHPS recorded revenues of Rs.699.56 crore for FY18 – an increase of ~12.95% over previous year. (Rs.619.36 crore previous year) amidst an increasingly competitive landscape. WGC (World Gold Council) expects the domestic jewelry trade to become more organized with consolidated jewellery manufacturers selling a range of conventional and modern products to young urban sophisticated consumers. WGC, expects India's gold demand to get a boost from the demographic profile and increasing trend in disposable incomes.

Acuite believes WHPS will continue to benefit from WHPS's strong brand equity, wide network of stores across Maharashtra and the promoter's demonstrated ability to adapt to changing consumer tastes and preferences

- Increasing demand towards branded jewellery**

The consumers' preference towards branded jewellery and jewellery with hallmarking has been increased over the years. With increasing demand of hallmarked jewellery, regional players like WHPS are expected to benefit from the same. As per World Gold Council report, India was one of the fastest growing economy in 2016, and given India's growth trajectory, per capita income is expected to continue to rise, this will underpin

growth in consumer demand.

There are two drivers of demand for gold, income and gold prices. Gold demand rises with income levels. For a 1% increase in income per capita gold demand rises by 1% and higher prices deter gold purchases. For a 1% increase in prices, gold demand falls by 0.5%. Demand responds more to income than it does to price. This helps explain why gold demand has increased from around 700t in 2000 to around 1,000t in 2010, despite a dramatic increase in the gold price over the period.

As per WGC's survey, around 86 per cent of responses in India said that hallmarking is extremely or very important. Players like WHPS and others who are into hallmarking jewellery, are expected to be benefitted from the same. India being a second largest jewellery market in the world, the consumer preferences towards branded and hallmarked jewellery has increased over the years. The demand for bridal jewellery in India constitutes to around 50-55% of total gold demand followed by 35-40% of daily wear and balance by fashion jewellery. With WHPS's expertise in bridal jewellery for over 100 years, Acuite believes with the increasing demand for bridal jewellery, light weight jewellery, and branded jewellery with hallmarking, established players like WHPS and others are likely to have a positive impact on its future growth.

### **Weaknesses**

- **Moderate profitability margins & coverage indicators**

The profitability margins and the coverage indicators of WHPS is moderated marked by operating margins of 3.62 per cent in FY2018 as against 4.09 per cent in the previous year. Gearing (debt-equity) stood at 2.24 times as on 31 March 2018 as against 2.58 times as on 31 March 2017. The total debt of Rs.196.10 crore as on 31 March 2018 majorly comprises of Gold Metal Loan of Rs.137.36 crore, Cash Credit of Rs.48.63 crore and term loan of Rs.10.11 crore. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) of 1.56 times for FY2018 (PY: 1.37 times). Debt-EBITDA stood at 6.89 times for FY2018 as against 7.09 times in the previous year. WHPS has limited headroom to absorb any further debt. Acuite expects some moderation in debt protection metrics on account of plough back. Any significant deviation in any indicators will be a key rating sensitivity factor.

- **Increased Competition from other Branded players**

The branded jewellery segment has witnessed intense competition with the aggressive marketing initiatives by pan India players like Tanishq & expansion plans by regional players like Joyalukkas, Kalyan Jewellers and Tribhovandas Bhimji Zaveri. The increasing consumer (and regulatory) preferences towards practices like compulsory hallmarking of jewellery is expected to augur well for the organised players, however the intensely competitive landscape is expected to result in moderation of profitability margins. The increased branding initiative by the various leading large players like Tanishq & Kalyan Jewellers is also expected to exert pressures on the margins of the other relatively smaller regional players like WHPS. The ability of the regional players like WHPS to stave of these competitive pressures from the larger players will hinge on their ability to offer products in tune with changing consumer preferences at competitive prices. The increasingly stringent regulatory framework applicable to jewellers and the concomitant increase in compliance costs also has an impact on the margins of the jewellery players.

The management of WHPS has hitherto followed a cautious approach to store expansion by restricting the number of stores to 12. The last store of WHPS was opened in 2014. The prudent approach to growth has impeded WHPS's ability to scale up its operations as its existing stores face competitive pressures from other players. Acuite believes that WHPS's business risk profile will be largely influenced by its store expansion initiatives & the ability to scale up its revenues by adding new stores while maintaining its profitability metrics.

### **Outlook: Stable**

Acuite believes that WHPS will continue to benefit from established regional position and extensive industry experience of promoters. The 'Outlook' may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining its debt protection metrics and profitability. The 'Outlook' may be revised to 'Negative' in case of significant decline in case of further deterioration in profitability margins or weakening of debt protection metrics.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	699.56	619.36	615.24
EBITDA	Rs. Cr.	25.36	25.35	25.15
PAT	Rs. Cr.	4.10	3.28	4.24
EBITDA Margin	(%)	3.62	4.09	4.09
PAT Margin	(%)	0.59	0.53	0.69
ROCE	(%)	8.65	9.92	19.13
Total Debt/Tangible Net Worth	Times	2.24	2.58	2.15
PBDIT/Interest	Times	1.56	1.37	1.69
Total Debt/PBDIT	Times	6.89	7.09	6.22
Gross Current Assets (Days)	Days	128	160	142

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- /Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A- /Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A- /Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- /Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- /Stable

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### About Acuité Ratings & Research:

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