

Press Release

Waman Hari Pethe Sons Private Limited



October 19, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 170.00 Cr.
Long Term Rating	ACUITE A-/Negative (Reaffirmed; Outlook: revised from Stable to Negative)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to the Rs. 170.00 Cr. bank facilities of Waman Hari Pethe Sons Private Limited (WHPS). The outlook is revised to '**Negative**' from '**Stable**'.

Outlook Revised to Negative

The revision in the outlook to 'Negative' is due to deterioration in operating performance vis-à-vis historical trends on account of tepid market conditions, the revision in outlook also reflects deterioration in the company's financial risk profile driven by increase in debt levels coupled with rise in inventory levels as on 31 March 2019. The increase in debt levels as on 31 March 2019 is majorly on account of acquisition of 1 new store and pile up in inventory. Any further increase in debt levels owing to deterioration in financial risk profile or elongation in working capital will entail a rating downgrade.

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 operates 12 retail jewellery stores across Mumbai, Thane, Pune, Solapur, Raigad and Aurangabad.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of WHPS to arrive at the rating.

Key Rating Drivers:

Strengths

- Established market position with a strong brand**

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 promoter family, along with his wife Mrs. Sonali Pethe operate a chain of 12 stores under the name 'WHPS' spread across Mumbai, Thane district, Pune, Solapur, Raigad and Aurangabad. The company owns 4 out of these 12 stores and the balance 8 is on lease. WHPS specializes in Maharashtrian 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 steady 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.

Acuité 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.

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.

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, Acuité 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. However, significant rise in gold prices could affect consumer demand over the medium term.

Weaknesses

- **Moderate financial risk profile**

The company's financial risk profile is moderate marked by modest net worth, gearing and low debt protection metrics. The tangible net worth of WHPS stood at Rs. 93.99 crore in FY19 (including quasi equity of Rs.6.16 crore) as against Rs. 87.48 crore (including quasi equity of Rs.3.65 crore) in the previous year. Gearing (debt-equity) deteriorated to 2.66 times as on 31 March, 2019 as against 2.24 times as on 31 March 2018 on account of substantial long term debt and working capital borrowings. The total debt of Rs.249.65 crore as on 31 March 2019 majorly comprises of Gold Metal Loan of Rs.153.19 crore (which also includes Rs.48.43 crore of gold loan against 110% cash margins and Rs.16.39 crore of gold loan against FD), Cash Credit of Rs.78.37 crore and term loan of Rs.18.09 crore. The increase in debt levels as on 31 March 2019 is majorly on account of acquisition of 1 new store and pile up in inventory. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) of 1.59 times for FY2019 (PY: 1.56 times). Debt-EBITDA stood at 8.05 times for FY2019 as against 6.89 times in the previous year. Acuité believes any significant deviation in any indicators will be a key rating sensitivity factor.

- **Susceptibility to regulatory framework and 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 off 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.

Acuité 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.

Rating Sensitivity

- Improvement in working capital and significant improvement in financial risk profile
- Elongation in working capital leading to higher-than-expected reliance on external borrowings
- Higher-than-expected capex leading to deterioration in financial risk profile

Material Covenants

- Maintain DSCR at a minimum level of 1.70 times
- Maintain TOL/TNW at a minimum level of 2.1 times
- Maintain Current Ratio at a minimum level of 1.33 times
- Proportionate cash flows to be routed through Yes Bank

Liquidity Profile

The company's liquidity is adequate marked by moderate net cash accruals of Rs.8.63 crore in FY2019 as against debt repayment of Rs.1.8 crore over the same period. The company has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 143 days in FY2019 as against 128 days in FY2018. The current ratio stood at 1.17 times as on March 31, 2019 and the fund based limit remains fully utilised over the six months ended June 2019. The company maintains unencumbered cash and bank balances of Rs.9.58 crore as on March 31, 2019. Acuité draws comfort from increase in unsecured loans from promoters to the tune of Rs.2.51 crore leading to improvement in the liquidity position of the company.

Outlook: Negative

Acuité believes that WHPS' credit profile could face pressure over the near to medium term on account of its significant interest obligations and high debt exposure. The rating may be downgraded in case of further deterioration in financial risk profile and profitability margins thereby impacting the liquidity and debt protection indicators of the company. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant growth in revenue while efficiently managing its working capital cycle and keeping the debt levels moderate along with capital infusion.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	636.62	699.56	619.36
EBITDA	Rs. Cr.	27.94	25.36	25.35
PAT	Rs. Cr.	4.29	4.10	3.28
EBITDA Margin	(%)	4.39	3.62	4.09
PAT Margin	(%)	0.67	0.59	0.53
ROCE	(%)	8.49	8.65	18.33
Total Debt/Tangible Net Worth	Times	2.66	2.24	2.58
PBDIT/Interest	Times	1.59	1.56	1.37
Total Debt/PBDIT	Times	8.05	6.89	7.09
Gross Current Assets (Days)	Days	143	128	160

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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
10-Dec -2018	Cash Credit	Long Term	60.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	55.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Assigned)

***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	30.00	ACUITE A-/Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A-/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A-/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A-/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/ Negative (Reaffirmed)

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About Acuité Ratings & Research

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