

Press Release

Waman Hari Pethe Sons Private Limited

January 21, 2021

Rating Reaffirmed and Assigned; Outlook Revised



Total Bank Facilities Rated*	Rs. 155.00 Cr. (Revised from Rs. 170.00 Cr.)
Long Term Rating	ACUITE A-/Outlook: Stable (Reaffirmed, Assigned and Outlook Revised)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 145.00 Cr. bank facilities and also assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.10.00 Cr. bank facilities of Waman Hari Pethe Sons Private Limited (WHPS). The outlook is revised to '**Stable**' from '**Negative**'.

Revision in outlook

The revision in the outlook to 'Stable' is on account of improvement in operating performance as well as financial risk profile vis-à-vis historical trends on account of improved margins, reduction in debt levels, and cost effective measures undertaken by management to improve liquidity position of the company in FY2020 and FY2021. The revision in outlook also factors in expected future growth from sale of patented jewellery products and decision of management to shift to ownership model from leased model by replacing three leased stores with owned stores in Pune, Raigad and Thane in current year. Also, company is able to manage its working capital cycle at same levels and sustain existing business risk profile despite pandemic and economic slowdown. However, rating is constrain by elevated long term debt levels, higher reliance on working capital limits and tepid market conditions which has impacted demand and lowered spending on discretionary products.

The operating income of the company stood at Rs. 611.79 crores in FY2020 as compared to Rs. 636.66 crores in FY2019. The company has achieved revenue of Rs. 361.56 crores as on December, 2020 (Provisional). Despite, of the ongoing impact of pandemic WHPS is able to demonstrate ability to sustain its existing business risk profile. The operating margins stood improved at 4.77 percent in FY2020 as against 4.11 percent in FY2019 and 3.62 percent in FY2018. The PAT margins stood improved at 1.10 percent in FY2020 as against 0.67 percent in FY2019 and 0.59 percent in FY2018. Also, Gross Current Assets (GCA) days stood at same levels of 130 days in FY2020 as compared to 126 days in FY2019. Further, improving financial risk profile is mainly marked by improvement in Debt/EBITDA levels to 6.70 times in FY2020 as against 8.55 times in FY2019. Acuite believes that the company will be able to sustain the improvement in operating performance and financial risk profile over medium term on account of absence of any debt funded capital expenditure plans and improvement in profitability levels there by improving liquidity profile of WHPS.

About the Company

Waman Hari Pethe Sons Private Limited (WHPS) based in Mumbai, started in 2001 as a partnership firm 'Waman Hari Pethe Sons'. Later 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. Pursuant to a family arrangement, Mr. Subodh Pethe has been operating under the brand name WHPS. The promoter's family has been in the gold jewellery business for more than 100 years. WHPS operates 12 retail jewellery stores (PY: 13) across Mumbai, Thane, Pune, Solapur, Raigad and Aurangabad.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established market position with a strong brand presence**

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 leased. In FY2021, management has decided to replace three stores with owned stores which will take the total owned stores to 7 stores and leased to 5 stores. Mr. Subodh possess over three decades of experience in the industry and supported by second line of management. WHPS is well supported by dedicated team of professionals and has tie-ups with 200 plus artisans.

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.

Acuite believes that the company 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.

- **Improvement in margins**

The operating income stood at Rs 611.79 crores in FY2020 as compared to Rs. 636.66 crores in FY2019. The company has booked revenue of Rs. 361.56 crores for 9MFY2021. However, WHPS has shown consistent improvement in its profitability margins over the past three years ending FY2020. The same is evident through improvement in operating margins which stood at 4.77 percent in FY2020 as against 4.11 percent in FY2019 and 3.62 percent in FY2018. The PAT margins also stood improved at 1.10 percent in FY2020 as against 0.67 percent in FY2019 and 0.59 percent in FY2018. The improvement is visible on account of higher gold realisations, higher usage of low cost gold metal loans (GML), rationalization across the product portfolio and retail stores, focus on cost control measures, higher making charges. Acuite believes that the profitability levels would improve further due to lower operational cost and higher gold prices which will also remain the key deliverable over the medium term.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile continues to remain moderate marked by moderate net worth, gearing and debt protection measures. The tangible net worth stood at Rs. 96.62 crores as on 31 March 2020 as against Rs. 93.99 crores as on 31 March 2019. The improvement in net worth is attributable to healthy accretion to reserves over the period. The gearing stood moderate at 2.21 times as on 31 March 2020 as against 2.66 times as on 31 March 2019. The total borrowings of Rs 213.14 crores as on 31 March, 2020 comprises of short term borrowings of Rs 161.18 crores, gold metal loan of Rs.15.68 crores and term loan of Rs. 36.29 crores. The interest coverage ratio (ICR) stood at 1.72 times in FY2020 as against 1.65 times in FY2019. The total outside liabilities to tangible net worth stood at 2.69 times as on 31 March 2020 as against 3.08 times as on 31 March, 2019. The net cash accruals stood at Rs. 11.59 crores for FY2020 as against debt repayment obligation of Rs. 1.54 crores. DSCR stood at 1.49 times for FY2020 as against 1.46 times for FY2019.

Acuite believes that the financial risk profile of the company is expected to moderate with regular

accretions to reserves and in the moderate debt funded capital expenditures.

• **Moderate impact of Covid-19 and susceptibility to regulatory framework and increased competition from other branded players**

WHPS remains exposed to the vulnerability of gold jewellery demand to gold price fluctuations. There was a steep revenue decline in Q1 FY2021 on account of the stores remaining non-operational on account of Covid-19. Operations of company were impacted due to lockdown imposed during March 2020 to June 2020. The company has booked revenue of Rs. 361.56 crores for 9MFY2021 (Provisional). Acuite believes that WHPS is expected to see a revenue downfall of 25 percent to 30 percent in FY2021, followed by a recovery in FY2022.

Increased regulatory intervention in jewellery industry in the recent years has impacted the demand and supply scenario in the industry. In the long term, regulatory measures such as hallmarking, the requirement of permanent account number, mandatory disclosure for purchases above threshold limits, restrictions on jewellery saving schemes, increase in import duty, and introduction of the sovereign gold bond schemes to shift consumer preference away from physical gold. The industry remains exposed to regulatory interventions and gold price volatility, which would continue to impact the demand-supply scenario. Gold jewellery retailing is a highly-fragmented segment, with the presence of large organised players and numerous unorganised ones. Acuite believes that WHPS will remain exposed to regulatory risks over the medium term.

Rating Sensitivities

- Improvement in margins, net cash accruals and liquidity 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

Liquidity Profile: Adequate

The company maintains adequate liquidity position marked by net cash accruals of Rs. 7.30 to 11.60 crores for last three years ending FY2020 against debt repayment of ~Rs. 0.40-1.75 crores over the same period. The current ratio of the company stood at 1.26 times as on March 31, 2020. NCA/TD stood at 0.06 times as on 31st March, 2020 and 0.05 times in the previous year. The company maintains unencumbered cash and bank balances of Rs. 3.92 crores as on March 31, 2020. Also, Gross Current Assets (GCA) days stood at same levels of 130 days in FY2020 as compared to 126 days in FY2019. However, the company reliance is higher on bank limits which stood utilised almost full for last six month ending December 2020.

Outlook: Stable

The outlook is revised to 'Stable' is on account of improvement in operating performance as well as financial risk profile vis-à-vis historical trends on account of improved margins, reduction in debt levels, and cost effective measures undertaken by management to improve liquidity position of the company in FY2020 and FY2021. The revision in outlook also factors in expected future growth from sale of patented jewellery products and decision of management to shift to ownership model from leased model thereby improving operating efficiency. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	611.79	636.66
PAT Margin	Rs. Cr.	1.10	0.67
PAT	(%)	6.73	4.29
Total Debt/Tangible Net Worth	Times	2.21	2.66

PBDIT/Interest	Times	1.72	1.65
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Any other information

Not Applicable

Any Material Covenants

TOL/TNW – Not exceeding 3 times

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Oct-2019	Cash Credit	Long Term	25.00	ACUITE A-/Negative (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A-/Negative (Reaffirmed)
	Cash Credit	Long Term	55.00	ACUITE A-/Negative (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A-/Negative (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A-/Negative (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE A-/Negative (Reaffirmed)
10-Dec-2018	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-/Stable (Assigned)
	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)

*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	25.00*	ACUITE A-/Stable (Reaffirmed & Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A-/Stable (Reaffirmed & Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00^	ACUITE A-/Stable (Reaffirmed & Outlook revised)

					revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed & Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00@	ACUITE A-/Stable (Reaffirmed & Outlook revised)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Assigned)

@Sublimit of Rs.20.00 crores of WCDL

^Sublimit of Rs.25.00 crores of WCDL and Gold Metal Loan

*Metal Gold Loan Rs.29.00 crores as sub limit

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About Acuité Ratings & Research:

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