

Press Release

Everest Gold Mart Private Limited

September 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 28.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 28.00 crore bank facilities of EVEREST GOLD MART PRIVATE LIMITED. The outlook is '**Stable**'.

Everest Gold Mart Private Limited (EGPL) is a Tamil Nadu-based entity, started as a partnership firm in 1971, and later converted into private limited in the year 2012. It is promoted by Mr. A Vasudevan and family. It is engaged in running of retail showrooms for gold and silver jewellery in Tamil Nadu. The company is running three retail showrooms in Ramanthapuram (3300 sq. ft.), Paramakudi (560 sq. ft.) and Thondi (1200 sq. ft.) in the state of Tamil Nadu.

Analytical Approach

Acuite has considered the standalone business and financial profiles of EGPL to arrive at this rating

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

Everest Gold Mart Private Limited started its operations in 1971 in Ramanthapuram, promoted by Mr. A Vasudevan and family who are in the business for more than four decades. The company has strong presence in one of its key location Ramanthapuram, Tamil Nadu, from where the company generates about 85 per cent of the total revenues. The company is currently having three retail stores, and it is planning to expand ahead by adding one more retail store at Sivaganga, Tamil Nadu. It offers gold jewellery of manmade, studded, casting jewellery, silver articles, among others. Acuite believes that the experience of the management and long track record of operations in the industry is expected to support in the improvement of its business risk profile over the medium term.

• Comfortable financial risk profile

The financial risk profile of the company is comfortable marked by healthy gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics though partly constrained by moderate network. The gearing and TOL/TNW are comfortable at 0.73 times and 0.93 times as on 31 March, 2019 as against 0.92 times and 1.03 times as on 31 March, 2018. Net worth stood at Rs.32.90 crore as on 31 March, 2019 as against Rs.18.83 crore as on 31 March, 2018 (includes zero optionally convertible debentures given to the promoters - treated as quasi equity of Rs.21.17 crore in FY2019; Rs.18.83 crore in FY2018). Of the total debt of Rs.23.99 crore as on 31 March, 2019, unsecured loans stood at Rs.1.44 crore and short term debt at Rs.22.54 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.45 times and 0.08 times in FY2019. The company reported net cash accruals (NCA) of Rs.1.86 crore in FY2019. Cash accruals are expected in the range of Rs. 2.5 crore - Rs.3 crore, against zero debt obligations over the medium term. Acuite believes that with moderate accruals and no major debt funded capital expenditure program, the financial risk profile continues to be at similar levels over the medium term.

• Moderate working capital cycle

The operations are moderately working capital intensive mainly on account of inventory at 108 days in FY2019 as compared to 97 days in FY2018. As the company is operating retail showrooms, it maintains optimal inventory across in terms of quantity and designs at the stores. Debtors cycle stood at one day in FY2019 and FY2018, as majority of the transactions are on immediate payment. Due to

moderate inventory levels and immediate payment business, bank limit utilisation is moderately high at around 90 per cent for the last 12 months through July 2019. Acuite believes that with the nature of business, operations continue to be at similar levels over the medium term.

Weaknesses

- **Raw material fluctuation risk**

EGPL's revenues and profitability margins are exposed to volatility in the prices of gold - the major raw material. This has further resulted in fluctuation in revenues and profitability. Revenue stood at Rs.155.60 crore for FY2017, Rs. 203.41 crore for FY2018 and Rs.199.14 crore in FY2019. Though the company has replenishment policy of buying the same quantity of gold or silver that was sold during the day, operating margins of the company are fluctuating that stood at 3.40 per cent in FY2017, 3.05 per cent in FY2018 and 3.88 per cent in FY2019.

- **Highly competitive and fragmented industry**

The gems and jewellery (G&J) industry is characterised by a large number of organised and unorganised players and intense competition. Further, the company has all the current show rooms in only one district Ramanathapuram district, Tamil Nadu exposing to the geographic concentration risk.

Industry Scenario

Demand for jewellery have sub-due over the past four months, due to various reasons such as Government imposing additional duty of 2.5 per cent to make it 12.5 per cent on gold imports. Gold prices increased by over 20 per cent in the past 8 months through August, 2019; high prices may setback the purchase trend for the upcoming festive and marriage seasons in calendar year 2019, which are major season for jewellery sales in Tamil Nadu. However, exchange of gold by the buyers for new ornaments gives a major opportunity for the jewellery players in improving the profitability. As in the international market, various countries are investing majorly on gold purchase as they give better returns vis-à-vis other commodities or financial instruments and global trade war lead to increase in gold prices to \$1528 per ounce in 26 August, 2019 against \$1294 per ounce of gold as of 01 March, 2019, an increase by 18 per cent. Also in the Indian market, the prices of 99.9 per cent gold rates have zoomed to Rs.33980 / 10 gms as of 01 March, 2019 against Rs. 38715/ 10 gms in 26 August, 2019.

Liquidity Position

EGML has adequate liquidity marked by moderate net cash accruals and efficient working capital management. EGML reported cash accruals of Rs.1.86 crore for FY2019. The cash accruals of the company are estimated to remain at around Rs.2.5 crore- Rs.3 crore during 2020-22, against no repayment obligations over the medium term. Operations are working capital efficient as reflected in GCA at 107 days in FY2019 (96 days in FY2018). Bank limit utilisation is over 90 per cent for 12 months through July 2019. The current ratio stood comfortable at 2.00 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs.0.47 crore as on March 31, 2019. Acuite believes that the liquidity of EGML is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that EGML will maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenue, while sustaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	199.14	203.41	155.60
EBITDA	Rs. Cr.	7.72	6.20	5.29
PAT	Rs. Cr.	1.54	0.81	0.87
EBITDA Margin	(%)	3.88	3.05	3.40
PAT Margin	(%)	0.78	0.40	0.56
ROCE	(%)	13.22	12.75	27.35
Total Debt/Tangible Net Worth	Times	0.73	0.92	0.56
PBDIT/Interest	Times	1.45	1.35	1.38
Total Debt/PBDIT	Times	3.09	4.25	2.53
Gross Current Assets (Days)	Days	107	96	94

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.50	ACUITE BBB- / Stable
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB- / Stable

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