Press Release

Everest Gold Mart Private Limited

December 30, 2021

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB | Stable | Upgraded	
Total	15.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to 'ACUITE BBB' (read as ACUITE triple B) from 'ACUITE BBB-' (read as ACUITE triple B minus) on the Rs 15.00 Cr bank facilities of Everest Gold Mart Private Limited (EGMPL). The outlook remains 'Stable'.

The upgrade in the rating factors in the improved business risk position of the company marked by outgrowth in the expected revenue and improvement in the profitability margins of the company, leading to increased cash accruals. Further, the company has improved its reach by launching a mobile application and significantly improved its inventory management, resulting in shorter working capital cycle.

The rating continues to derive strength from the five decades of existence in the jewellery business, rich management experience and comfortable financial risk profile of the company. However, the rating is partially constrained by the susceptibility to regulatory framework, intense competition in the jewellery industry and high geographical concentration of the showrooms.

About the Company

Established as a partnership concern in 1971, EGMPL is a Tamil Nadu based company, engaged in running retail stores for gold and silver jewellery. The company has four retail showrooms in Ramanthapuram, Paramakudi, Thondi and Sivaganga respectively. The company sells their jewellery under the name 'Everest Jewelley'. EGMPL is currently managed by Mr. Vasudevan Venkatesh, Mr. Balasubramanian Nanthakumar and Mr. Ayyavu Vasudevan.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and long track record of operations

EGMPL was established as a partnership firm in 1971 which later got converted into a private limited company in 2012. The company has an operational track record of five decades in the retailing of gold and silver jewellery. The director of the company, Mr. Ayyavu Vasudevan has been involved in the jewellery business since its inception. The other directors, Mr. Balasubramanian Nanthakumar and Mr. Vasudevan Venkatesh have experience of around two decades in the industry. The long track record of operations has enabled the company maintain a stable business risk profile and get repeat customers. Acuité believes that EGMPL will sustain its existing business profile on the back of an established track record of operations and experienced management.

Comfortable financial risk profile

The company's comfortable financial risk profile is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.55.28 Cr as on 31 March, 2021 as against Rs.40.37 Cr as on 31st March, 2020 (includes zero coupon convertible debentures given to the promoters - treated as quasi equity of Rs.25.84 Cr in FY21). The gearing stood low at 0.28 times in FY2021 as against 0.55 times in FY2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.54 times in FY21 as against 0.87 times in FY20. Further, strong debt protection is marked by interest coverage ratio (ICR) at 5.15 times and TOL/TNW at 0.54 times. The NCA/TD stood at 0.83 times in FY2021. Acuité believes that the financial risk profile of the company will remain at similar levels over the medium term backed by steady net cash accruals and no major debt funded capex plans.

Improved business risk profile

The company's revenues witnessed growth of nearly 38 per cent in FY21 and around 22 per cent in the previous year. Further, the company has booked revenue of around Rs.260 Cr (Prov.) till 12th Dec, 2021. The revenue improved as the company is efficient with inventory management and maintains huge stock of finished goods and hence could timely supply for orders after initial lockdown when the other local players could not. Also, huge demand for wedding season and Diwali and boosted the company's revenue after H1FY21.
The operating margin improved to 6.46 per cent in FY21 as against 5.55 per cent in the previous year. The PAT margin improved to 3.76 per cent in FY21 as against 2.12 per cent in FY20. The profit margins improved on account of reduction in making and hallmarking charges due to relaxation in the mandatory hallmarking norms and also due to high sales during H2FY21. The improved margins have translated into healthy RoCE level of 31.81 per cent in FY21 as against 22.20 per cent in FY20.

Improved business risk profile

The company's revenues witnessed growth of nearly 38 per cent in FY21 and around 22 per cent in the previous year. Further, the company has booked revenue of around Rs.260 Cr (Prov.) till 12th Dec, 2021. The revenue improved as the company has efficiently managed their inventory to deliver the customer needs after the first phase of lockdown. Also, increased demand during the festival season boosted company's revenue in H2FY21.

The operating margin also improved to 6.46 per cent in FY21 as against 5.55 per cent in the previous year. The PAT margin improved to 3.76 per cent in FY21 as against 2.12 per cent in FY20. The profit margins improved on account of reduction in making and hallmarking charges due to relaxation in the mandatory hallmarking norms and also due to high sales during H2FY21. The improved margins have translated into healthy RoCE level of 31.81 per cent in FY21 as against 22.20 per cent in FY20.

Weaknesses

Geographical concentration risk

The company is exposed to high geographical risk as it has three retail outlets located in Ramanathapuram district and one in Sivaganga in the state of Tamil Nadu. The high geographical concentration renders the revenue growth and profitability susceptible to the growth plans and procurement. However, this risk is mitigated to an extent as management is operating in this area for nearly five decades. The company's performance is expected to remain exposed to the local competition in this region.

Susceptibility to regulatory framework and intense competition in jewellery industry

Government's regulations aimed towards increasing transparency in the gold jewellery industry through mandatory PAN disclosures for transactions above Rs. 2 lakh and changes in hallmarking norms impacting the gold jewellery demand could hinder near term growth prospects of the company. Despite its longstanding presence in the business, EGMPL faces challenges of intensifying competition from regional players as well as pan India players. Further, the fragmented nature of the industry has resulted in strong competitive pressures.

Rating Sensitivities

- Sustenance of the business risk profile

Material covenants

None

Liquidity Position: Adequate

The company has an adequate liquidity position marked by healthy net cash accruals of Rs.12.95 Cr as against no long term debt obligation during the same period. The current ratio stood strong at 2.98 times in FY21 as compared to 2.13 times in FY20. The current ratio is high due to high inventory to be maintained in their retail outlets. The company has unencumbered cash and bank balances of around Rs.0.48 Cr in FY21 as compared to Rs.0.19 Cr in FY20. The company did not avail any Covid loan or loan moratorium. The working capital limits remained utilized at 94 percent for six months ended September, 2021. Acuité believes that the liquidity position of the company will boost further over the medium term due to steady net cash accruals.

Outlook: Stable

Acuité believes that Everest Gold Mart Private Limited's outlook will remain 'Stable' over the medium term on account of its experienced management, long track record and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of any higher than expected growth in revenues and profitability margins while sustaining its financial risk profile. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	334.53	242.55
PAT	Rs. Cr.	12.57	5.14
PAT Margin	(%)	3.76	2.12
Total Debt/Tangible Net Worth	Times	0.28	0.55
PBDIT/Interest	Times	5.15	2.57

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.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 Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Oct 2020	Cash Credit	Long Term	15.00	ACUITE BBB- | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.50	ACUITE BBB- (Withdrawn)
05 Sep 2019	Cash Credit	Long Term	26.50	ACUITE BBB- | Stable (Assigned)
	Proposed Bank Facility	Long Term	1.50	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)

*sublimit of CC - WCDL of Rs.12.00 crore

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About Acuité Ratings & Research

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