

## Press Release

Everest Gold Mart Private Limited

March 17, 2023



## Rating Reaffirmed

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

## Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs 15.00 Cr bank facilities of Everest Gold Mart Private Limited (EGMPL). The outlook is '**Stable**'.

### Rationale for rating reaffirmation

The rating reaffirmation of EGMPL takes into account improvement in the company's operating income in FY2022. EGMPL reported an increase in its revenues of Rs.379 Cr in FY2022 as against Rs.335 Cr in FY2021. The sales of the company increased post Q2 of FY2022 since all the four retail outlets of the company experienced stability in its customer footfall post relaxations were announced in covid restrictions which ultimately led to an increase in demand of gold and silver jewellery purchases for wedding and other festive season during the year. For the current year, as on 9M FY2023, EGMPL has achieved revenue of Rs.335 Cr and is expected to generate revenue of Rs.440 Cr – Rs.450 Cr by year end. The rating also draws comfort from company's experienced management with an established track record of operations and its moderate financial risk profile.

The rating is however constrained by the decline in the company's operating and profitability margin in FY2022, moderately working capital intensive operations, geographical concentration risk, susceptibility to regulatory framework and intense competition in jewellery industry. Going forward, ability of the company to restrict any further decline in its operating profitability margin while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

### About the Company

EGMPL established in 1971 as a partnership firm and later got converted to a private limited company in 2012, is engaged in running retail stores for gold and silver jewellery. The company has four retail showrooms in Tamil Nadu at Ramanthapuram, Paramakudi, Thondi and Sivaganga respectively under the name of 'Everest Jewellery'.

### Analytical Approach

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

### Key Rating Drivers

## **Strengths**

### **Experienced management and established track record of operations**

EGMPL has an operational track record of nearly five decades. The company is promoted by Mr. Ayyavu Vasudevan who possess more than five decades of experience in the retailing of gold and silver jewellery. He is supported by other directors Mr. Balasubramanian Nanthakumar and Mr. Vasudevan Venkatesh who possess nearly two decades of experience in the same industry. The promoter and directors are being supported by its team of experienced professionals in managing day to day operations of EGMPL. The extensive experience of the management has enabled EGMPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that EGMPL will continue to benefit from its experienced management and established track record of operations.

### **Moderate financial risk profile**

Financial risk profile of EGMPL is moderate marked by moderate networth, low gearing and moderate debt protection metrics. The networth of the company stood improved at Rs.69 Cr as on 31 March, 2022 as against Rs.55 Cr as on 31 March, 2021 on account of moderate accretion to reserves. It also includes the amount of unsecured redeemable zero coupon compulsorily convertible debentures given to the promoters which are treated as quasi equity of Rs.28 Cr in FY2022 as against Rs.26 Cr in FY2021 and Rs.24 Cr in FY2020. The gearing (debt-equity) stood lower at 0.26 times as on 31 March, 2022 as against 0.28 times as on 31 March, 2021. The gearing of the company is expected to improve further and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.18 Cr as on 31 March, 2022 consists of short term bank borrowings of Rs.13 Cr and unsecured loans from directors of Rs.5 Cr.

The interest coverage ratio and DSCR stood marginally lower at 5.04 times and 3.97 times respectively for FY2022 as against 5.15 times and 4.09 times respectively for FY2021. The Net Cash Accruals to Total debt stood lower at 0.63 times for FY2022 as against 0.83 times for FY2021. The Total outside liabilities to Tangible net worth stood at same level of 0.54 times for FY2022 and FY2021. The Debt-EBITDA ratio stood high at 0.93 times for FY2022 as against 0.72 times for FY2021.

Acuité believes that the financial risk profile of EGMPL will improve over the medium term due to its improving operating performance, moderate debt levels vis-à-vis moderate tangible net worth and comfortable debt protection metrics.

## **Weaknesses**

### **Decline in profitability margins**

EGMPL reported decline in its profitability margin on account of subsequent increase in the purchase of gold and silver jewellery by the company from its various dealers during FY2022 as compared to FY2021, in order to meet the rising demand of the customers across all its retail outlets. In addition to this, increase in the employee cost, making and hallmarking charges and other expenses i.e. repairs and maintenance of all its outlets affected the overall profitability of the company. The operating margin stood at 5.15 percent in FY2022 as against 6.46 percent in FY2021 whereas the net profit margin stood at 2.92 percent in FY2022 as against 3.76 percent in FY2021.

Acuité believes that any further decline in EGMPL's operating and profitability margin will remain a key rating sensitivity factor.

### **Moderately working capital intensive operations**

The working capital operations of EGMPL are moderately intensive marked by its increase in Gross Current Assets (GCA) of 95 days for FY2022 as against 87 days for FY2021 on account of increase in the inventory cycle which stood at 100 days in FY2022 as against 93 days in FY2021. The company operates four retail outlets and therefore has to maintain adequate inventory

i.e. all kinds of gold and silver jewellery on display for the customers. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~95 percent on account of utilising the working capital limit towards purchasing of the same quantity of gold and silver which is sold by them on the same day in order to mitigate the price fluctuation risk. The debtor days and creditor days however stood well managed with 0 days in both FY2022 and FY2021 due to upfront payments from the customers as well as to the suppliers.

Acuité believes that the ability of EGMPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Geographical concentration risk**

EGMPL 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**

- Ability to restrict any further decline in operating and profitability margin
- Ability to improve and maintain an efficient working capital cycle

### **Material covenants**

None

### **Liquidity position - Adequate**

EGMPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.5 Cr to Rs.11 Cr during FY2020 to FY2022 against its no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.14 Cr to Rs.16 Cr for period FY2023-FY2024 against its no repayment obligation during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 95 days for FY2022 as against 87 days for FY2021 on account of high inventory cycle. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~95 percent. Current ratio stands at 3.06 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.38 Cr in FY2022.

Acuité believes that the liquidity of EGMPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its no maturing debt obligations.

### **Outlook: Stable**

Acuité believes that EGMPL will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	379.03	334.53
PAT	Rs. Cr.	11.07	12.57
PAT Margin	(%)	2.92	3.76
Total Debt/Tangible Net Worth	Times	0.26	0.28
PBDIT/Interest	Times	5.04	5.15

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

Not applicable

## Any other information

None

## Applicable Criteria

- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Dec 2021	Cash Credit	Long Term	15.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB- )
07 Oct 2020	Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.50	ACUITE BBB- (Withdrawn)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Complexity Level</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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