Press Release

Ganjam Naggapa And Son Private Limited

Oct 08, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	84.50 (enhanced from Rs. 10 crore)	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Reaffirmed/Assigned
	Total	**84.50**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Ganjam Naggapa And Son Private Limited (GNSPL) draws comfort from the extensive experienced promoters in the jewellery industry and long standing presence of the company in the industry. However, these rating strengths are partially offset by decline in scale of operations and profitability, working capital intensive nature of operations and intensive competition in the industry from organised and unorganised players. The ratings also considers leveraged capital structure and below average debt protection metrics ,exposed to volatility in gold prices with foreign exchange fluctuation risk and susceptible to regulatory changes both in India and overseas.

Key Rating Sensitivities:

Upward Factor:

- Increase in scale of operations leading to improvement in profitability and liquidity of the company.

Downward factor:

- Deterioration in scale of operation coupled with deterioration in profitability on a sustained basis
- Moderation in the capital structure with further deterioration in overall gearing
- Elongation of operating cycle
- Any adverse regulatory changes

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the Jewellery Business

GNSPL is promoted by Mr. Eswar Ganjam (Managing Director) having an experience of more than six decades in the jewellery business. He looks after the overall business operations of the company. He is ably supported by his family members Mr. Umesh Ganjam and Mr, Koushik Ganjam having experience of about four decades respectively in the same line.

Long standing presence in industry

GNSPL was established in 1980 , the long standing presence in the industry has helped the promoters to establish healthy relationship with customers and suppliers. The company is a well recognised brand in luxury jewellery, offering authentic jewellery for south indian wedding in “Heritage Collection”, “Modern Jewellery Collection” to capture young generation and “Legacy Collection” jewellery design being shared with other jewellers.

Key Rating Weaknesses

Decline scale of operation and profitability:

The total operating income of the company witnessed an declining trend over the three years from Rs 148 crore in FY17 to 99.16 crore in FY20(Prov) due to snowball effect of changes in policy by goverment like demonetisation, restriction on cash sales ,GST, followed by closure of jewellery store in Delhi and Mumbai location and demise of Mr G.E.Kumar (Director who looked after manufacturing of jewellery) leading to diversion of attention from business. With decrease in top line, PBT and PAT declined to Rs(3.98) crore with PBT margin and PAT margin of (4.01%) in FY20(Provisionals) declined from 0.12% , 0.06% in FY18.

Leveraged capital structure and below average debt protection metrics

GNSPL total debt mainly comprises of term loan of Rs 13.89 cr with a repayment of Rs 0.59 crore , unsecured loan of Rs 2.78 crore and working capital borrowing of Rs 70.33 Cr as on March 31,2020(Prov). Higher dependence on working capital borrowings led to a leveraged capital structure for the company marked by high overall gearing ratio at 4.98x in FY20(Prov).

The total indebtedness of the company as reflected by TOL/TNW declined from 4.96x in FY19 to 5.94 in FY20(Prov) due to loss for the current year adjusted in reserves and surplus .The debt protections parameters are also below average, marked by low interest coverage ratio of 1.18x in FY20 prov (0.83x in FY18)

Working capital intensive nature of operations

GNSPL net working capital cycle increased from 195 days in FY18 to 303 days in FY20(Prov) due to it's elongated inventory period 327 days in FY20 Prov (215 days FY18) as design and workmanship on jewellery takes time and hand made finished product stage is longer than the usual operating cycle. The company pays to its suppliers in around 35-40 days and extends a credit period of around 8 to 12 days to it's customer .Further average fund-based working capital utilisation was highly utilised at ~99% of the sanctioned limits for the 12 months ended June 2020.

Exposed to intense competition from organised and unorganised players

The jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated gems and jewellery (G&J) industry leading to high competitive intensity. The Group faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry impacts the Group's profit margins.

Susceptible to regulatory changes both in India and overseas

Gold and Diamond is an important commodity traded in the international market, so trading in gold and diamond jewellery is highly influenced by several government policies and regulations, which change from time to time. For example: the government has mandated jewellers to collect PAN card for all purchases beyond Rs.2 lakhs, Introduction of GST on gold purchase and gold making Hallmarking to be mandatory for gold jewellery from 2021. The government has also introduced the sovereign gold bond scheme to shift consumer preferences away from physical gold. Any sharp change in pricing or regulations could affect the company performance. Company inherent risk of raw material price regulation which are governed by external factors.

Exposed to volatility in gold prices and foreign exchange fluctuation risk

Any adverse fluctuation in gold prices and foreign exchange rates directly affects the company profitability. However, dollar-denominated purchase of gold and export of jewellery through PCFC account provide a natural hedge to forex exposure.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Stretched

The GNSPL has stretched liquidity with low cash generation and average utilisation of fund based limits of ~99% during the past 12 months ended July 2020. The company has cash and bank balance of Rs 1.06 crore against the repayment of Rs 0.59 crore in FY20(Prov). The current and quick ratio remained stressed at 1.05x and 0.16x as on March 31,2020(Prov).However, the liquidity is constrained due to working capital intensive nature of its business and high working capital utilisation leaving a limited cushion.

About the Company

Incorporated in 1980, Ganjam Nagappa And Son Pvt. Ltd (GNSPL) is involved in designing, manufacturing and trading of the gold & diamond jewellery. The retail and storage facilities of the company is located in banglore. The main personnel who are looking after the designing, manufacturing, operation & marketing are Mrs. G. S. Eswar who has an experience of over six decades dealing in Gold Jewellery manufacturing & operations , Mr. G. B. Umesh who has over 42 years' experience in Gold Jewellery is looking after the operations, finance and marketing.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	103.62	99.16
EBITDA	9.51	12.80

PAT	(5.92)	(3.98)
Total Debt	87.14	87.59
Tangible Net worth	21.57	17.60
EBITDA Margin (%)	9.18	12.91
PAT Margin (%)	(5.71)	(4.01)
Overall Gearing Ratio (x)	4.04	4.98

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Issuer not cooperating by Brickwork vide press release dated March 05, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	70.00	IVR BB-/Stable Outlook	-	-	-
2.	Term Loan	Long Term	14.50	IVR BB-/Stable Outlook			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Cash Credit	-	-	-	70.00	IVR BB- /Stable Outlook
Long Term Bank Facility- Term Loan	-	-	-	14.50	IVR BB- /Stable Outlook