



Press Release

Hari Prasad Gopi Krishna Saraf Private Limited

December 6, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	90.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Total	90.00 (Rupees Ninety crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Hari Prasad Gopi Krishna Saraf Private Limited (HPGKSPL) derives strength from experienced promoters, long standing presence along with reputed brand, and substantial improvement in revenue and profitability along with comfortable capital structure and debt protection metrics. The rating strengths are, however, partially offset by high geographical concentration risk, susceptibility of margins to volatility in the price of gold, exposure to regulatory risks and presence in a highly competitive and fragmented industry.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the total operating income by 25%.
- Sustained improvement in EBITDA margin more than 10% leading to improvement in cash accruals
- Sustenance of overall gearing below unity and improvement in the debt protection metrics

Downward Factors

- Deterioration in scale of operations coupled with deterioration in profitability on a sustained basis
- Significant deterioration in the overall gearing ratio
- Any regulatory changes impacting the business risk profile of the company



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

HPGKSPL was incorporated in the year 2007 by Mr. Atul Saraf, Mr. Anoop Saraf, Mr. Vaibhav Saraf, Mr. Madhu Saraf and Mr. Saumitra Saraf. HPGKSPL is engaged in retail business of gold and diamond jewellery. HPGKSPL is a part of Hari Prasad Gopi Krishna Saraf Group. Hari Prasad Gopi Krishna Saraf Group was formed by Mr. Balkrishna along with his elder brother Late Mr. Gopi Krishna in the year 1940 for gold and diamond jewellery retailing. Mr. Saumitra Saraf (Managing Director) has 7 year of experience, Mr. Atul Saraf has more than four decades of experience, Mr. Anoop Saraf has three decades of experience and Mr. Vaibhav Saraf has one decade of experience in gems and jewellery industry. All the promoters are actively involved in the overall operations of the company. By virtue of the vast experience of the promoters, HPGKSPL has long standing relations with its customers and suppliers.

Long standing presence along with reputed brand

The Hari Prasad Gopi Krishna Saraf Group has been in the gems and jewellery business since 1940. Over the past eight decades, it has developed a strong market position as a jewellery retailer in Uttar Pradesh. The company sells jewellery under the brand name as 'Aisshpra'. The goodwill of the brand in eastern India also strengthens the group's market standing. Even though the jewellery industry in India witnesses tough competition from both the organised as well as the unorganised players, the Hari Prasad Gopi Krishna Saraf Group has held its own position has resulted in simplification of business structure.

Substantial improvement in revenue and profitability

Total operating revenue (TOI) has increased from FY20 to FY22. TOI has substantially increased by 12.85% in FY21 i.e. from Rs.517.00 crores in FY20 to Rs.593.21 crore in FY21 & in FY22 (un-audited) it has increased by 38.15% to Rs.959.11 crore, mainly due to increase in demand of its products from existing customers coupled with addition of new customers. EBITDA margin of the company has improved from 5.15% in FY20 to 7.64% in FY21 to 8.35% in FY22 (unaudited) in line with the improvement in TOI. Further, PAT margin has also improved from 5.84% in FY21 to 7.20% in FY22 (unaudited), mainly due to increase in non-operating income from Rs.7.95 crore in FY21 to Rs.19.37 crores in FY22 (un-audited). GCA improved from Rs.36.01 crore in FY21 to Rs.71.46 crore in FY22 in line with PAT.

Comfortable capital structure and debt protection metrics



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The company's capital structure remained comfortable during the period FY20 to FY22. Overall gearing ratio improved from 1.01x as on March 31, 2021 to 0.63x as on March 31, 2022 (unaudited) due to improvement in networth. However, total debt of the company has increased from Rs.78.55 crore as on March 31, 2021 to Rs.105.04 crore as on March 31, 2022 (unaudited). Total debt as on March 31, 2022 (unaudited) includes unsecured loans from promoters of Rs.53.96 crore and Rs.51.08 crore of working capital borrowings. Similarly, TOL/TNW ratio improved from 1.83x as on March 31, 2021 to 0.99x as on March 31, 2022 (un-audited). The debt protection metrics have remained moderate during the period FY20 to FY22. Interest coverage ratio has marginally deteriorated from 11.35x in FY21 to 10.54x in FY22 (un-audited) due to increase in interest expenses. However, total debt to GCA has improved from 2.15x in FY21 to 1.47x in FY22 (un-audited) due to improvement in GCA.

Key Rating Weaknesses

High geographical concentration risk

The jewellery segment of the Hari Prasad Gopi Krishna Saraf Group has 8 showrooms located in different areas of Uttar Pradesh. The company is primarily a regional player, with presence limited to Uttar Pradesh, which exposes it to significant geographical concentration risk.

Susceptibility of margins to volatility in the price of gold and exposure to regulatory risks

Gold and diamond are traded in the international market, so trading in gold, diamond and studded jewellery is highly influenced by several government policies and regulations, which changes from time to time. Recent changes in regulation include mandatory PAN number collection for purchase of gold jewellery above Rs.2 lakh, mandatory hallmarking of gold jewellery etc. The government also regulates the import duty on gold. The government is also encouraging investment in gold bonds and schemes as an alternative to physical gold. All these regulatory interventions affect the demand and supply of gold and the investment in the sector. Since gold is considered as the most near to liquid investment and can be readily sold in over the counter and traded on multiple exchanges the prices volatile in nature. These keep the price of gold highly volatile and can impact the margins of the companies in the industry.

Presence in a highly competitive and fragmented industry

The gems and jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated manufacturers leading to highly



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competitive industry. The company faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry impacts the company's profitability margins.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its debt repayment obligations. The company has managed its working capital requirements prudently and implemented an effective receivables management system. Collection period was range bound from 7 to 22 days in the past three years ending FY22 (unaudited). The operating cycle stood at 39 days in FY21 as against 5 days in FY20. In FY22, the operating cycle stood at 63 days due to the increase in inventory levels. The working capital requirement of the company is mainly funded through bank borrowings and unsecured loan from promoters (not subordinated to the bank debt). The company's average working capital utilization of the sanctioned bank limits stood at 77.06%, thus reflecting adequate liquidity. Additionally, the company has capex plans during FY23-25 which is expected to be funded through unsecured loan from promoters.

About the company

HPGKSPL was incorporated in the year 2007 by Mr. Atul Saraf, Mr. Anoop Saraf, Mr. Vaibhav Saraf, Mr. Madhu Saraf and Mr. Saumitra Saraf. HPGKSPL is engaged in retail business of gold and diamond jewellery. HPGKSPL is a part of Hari Prasad Gopi Krishna Saraf Group. Hari Prasad Gopi Krishna Saraf Group was formed by Mr. Balkrishna along with his elder brother Late Mr. Gopi Krishna in the year 1940 for gold and diamond jewellery retailing. Currently, HPGKSPL has 8 retail stores in Uttar Pradesh. Out of these eight stores, two stores (located at Hindi Bazar and Park Road) are fully owned by the company and six stores (located



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at Padrauna, Basti, Deoria, Lucknow, Ballia and Azamgarh) are operated under the partnership model.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Un-audited)
Total Operating Income	593.21	959.11
EBITDA	45.29	80.05
PAT	35.10	70.46
Total Debt	77.42	105.04
Tangible Networkth	77.00	167.52
Ratios		
EBITDA Margin (%)	7.64	8.35
PAT Margin (%)	5.84	7.20
Overall Gearing Ratio (x)	1.01	0.63

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	90.00	IVR BBB+/Stable	-	-	-

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About Infomerics:



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Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	90.00	IVR BBB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-HariPrasad-dec22.pdf>



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Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.