

December 27, 2022

G N Jewellers: Rating assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund Based- Cash Credit	25.00	[ICRA]BB-(Stable); assigned
Long term Fund Based- Term Loan	0.90	[ICRA]BB-(Stable); assigned
Long term Fund Based- Unallocated	0.10	[ICRA]BB-(Stable); assigned
Total	26.00	

Rationale

The assigned rating reflects the partners' extensive experience in the jewellery retailing industry and established regional presence of GN Jewellers (GNJ) in the jewellery retail markets of Srikakulam district. The partners of the firm have a long experience of more than four decades in the industry, having started its first showroom in Narasannapeta, Andhra Pradesh. The rating also considers the firm's healthy revenues in the current fiscal despite its first year of operations on account of buyout demand and range-bound gold prices. The firm's operating performance is also likely to be aided by the ongoing shift towards organised trade from unorganised trade.

The rating is, however, constrained because of high geographical concentration risk as it has only one showroom and the principal area of its operations is restricted to Srikakulam district. Its established brand presence in Srikakulam and strong customer base supported its performance but remains exposed to increasing competition from organised and unorganised players operating in the said district and the adjoining markets, limiting pricing flexibility and margins. The risk of capital withdrawal from the firm, which could adversely impact its liquidity profile and the net worth base, also puts pressure on the rating.

The Stable outlook on the rating reflects ICRA's expectations that GNJ's operational and financial performances will continue to benefit from the stable demand conditions and its established market position.

Key rating drivers and their description

Credit strengths

Experienced management with long track record in gold jewellery retail business – The firm enjoys strong reputation and continues to enjoy dominant position in Srikakulam district, which is reflected in healthy performance in its first year of operation. It has an experienced management team with over four decades of presence in the gold jewellery retail business.

Improving formalisation of jewellery sector to support organised trade – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency, and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, benefiting organised players like GN Jewellers. Further, with its sizeable presence in Srikakulam, and regulatory changes such as mandatory hallmarking of gold jewellery from June 2021, would further support organised trade and provide better opportunities in the near term.

Credit challenges

Earnings exposed to geographical concentration risks and intense competition – The firm faces high geographical concentration risk as it has only one showroom and the principal area of its operations is restricted to Srikakulam. Its established brand presence in Srikakulam and strong customer base supported its performance but it remains exposed to increasing competition from organised

and unorganised players operating in Srikakulam and the adjoining markets, limiting pricing flexibility and margins. Further, increased regulatory intervention in the jewellery industry in the recent years impacted the demand and supply in the industry. The firm will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Risks of capital withdrawal in partnership firm – The partnership constitution of GNJ exposes it to the risk of capital withdrawal by the partners, which could have an adverse impact on its net worth base, capital structure, debt coverage metrics and liquidity profile. Any sizeable capital withdrawal from the firm is likely to exert pressure on the ratings and will continue to remain a monitorable.

Liquidity position: Stretched

GNJ’s liquidity position is expected to remain stretched due to limited buffer in the form of unutilised working capital limits and free cash balances. The average utilisation of its fund-based limits over the last six months ending November 2022 stood at around ~50% of the sanctioned limits. ICRA also considers the term loan repayments, which are estimated to remain at Rs. 0.15 crore in FY2023, Rs. 0.18 crore in FY2024 and Rs. 0.18 crore in FY2025.

Rating sensitivities

Positive factors – Sustained growth in GNJ’s scale of operations and an improvement in the working capital cycle, resulting in better credit metrics and liquidity position, may result in a rating upgrade.

Negative factors – Pressure on the rating may emanate on account of any sharp fall in earnings or an elongation in its working capital cycle, resulting in a deterioration of its credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery-Retail Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the firm.

About the company

GN Jewellers, a partnership firm registered in January 2022, was founded by Mr. Gudla Narayana Rao. It operates a single retail jewellery store spread across 7,500 sq. ft. in Srikakulam, Andhra Pradesh. The firm has four partners, including the founder and his three sons. The partners first started with a showroom named GN Jewellers Gudla Narayana Rao Balaji Bullion and Jewellers in Narasannapeta, Andhra Pradesh for catering to the needs of the rural area, and it helped in establishing regional presence in Srikakulam district.

Key financial indicators

GN Jewellers Standalone	FY2022*	7MFY2023
	Audited	Provisional
Operating Income (Rs. crore)	5.2	117.7
PAT (Rs. crore)	0.0	1.1
OPBDIT/OI (%)	0.1%	1.5%
PAT/OI (%)	0.1%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	12.9	3.4
Total Debt/OPBDIT (times)	0.0	4.9
Interest Coverage (times)	-	2.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; E-Estimated*Firm started operation on March 28, 2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 27, 2022			
1	Fund Based-Cash Credit	Long-term	25.00	-	[ICRA]BB-(Stable)	-	-	-
2	Fund Based-Term Loan	Long-term	0.90	0.90	[ICRA]BB-(Stable)	-	-	-
3	Unallocated	Long-term	0.10		[ICRA]BB-(Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based-Cash Credit	Simple
Long-term fund-based-Term Loan	Simple
Long term-Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]BB-(Stable)
NA	Term Loan	30.06.2022	9.75%	FY2028	0.90	[ICRA]BB-(Stable)
NA	Unallocated Limits	NA	NA	NA	0.10	[ICRA]BB-(Stable)

Source: Firm.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy

+91-33-71501120

jayanta@icraindia.com

Kaushik Das

+91-33-71501100

kaushikd@icraindia.com

Vipin Jindal

+91 124 4545355

vipin.jindal@icraindia.com

Bharat Toplani

+91 98196 47744

bharat.toplani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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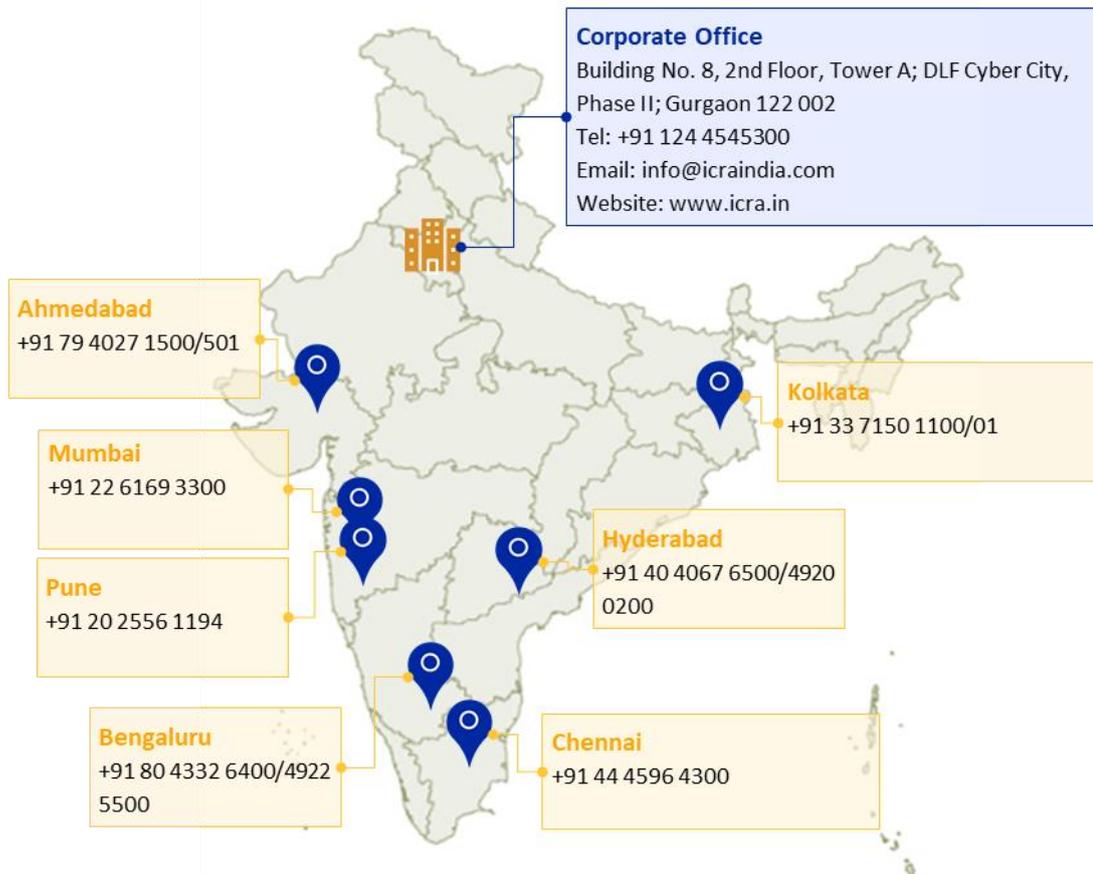
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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