

April 15, 2015

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	20.00	SMERA BBB-/Stable (Assigned)
Cash Credit (proposed)	5.00	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs.25.00 crore bank facilities of B. N. Jewellers (BNJ). The outlook is '**Stable**'. The rating is supported by the firm's experienced management, reputed clientele and healthy debt-protection metrics. The rating also draws comfort from the firm's efficient working capital management. However, the rating is constrained by the firm's limited financial flexibility. The rating notes that the firm's profit margins are susceptible to volatility in gold prices. Moreover, the firm faces intense competition from several players in the jewellery business.

BNJ, established in 1989, is a Mumbai-based partnership firm engaged in manufacturing of gold jewellery, platinum jewellery and diamond-studded ornaments. BNJ benefits from its experienced management. Mr. Babulal Rawal, partner of BNJ, has around 35 years of experience in the gems and jewellery industry. BNJ deals with several reputed jewellery retailers such as Joyalukkas, Kalyan Jewellers, Titan, Senco Gold, Tribhovandas Bhimji Zaveri and Tara Jewels.

BNJ has healthy debt-protection metrics with interest coverage ratio of ~4.00 times and return on capital employed (RoCE) of ~22.00 per cent in FY2013-14. The firm's leverage (debt-to-capital ratio) stood at 1.61 times as on March 31, 2014. BNJ has registered operating profit margin of ~3.25-3.50 per cent during the past three years.

The firm's efficient working capital management is reflected in comfortable working capital cycle of 48 days in FY2013-14. BNJ's utilisation of bank limit was high at ~97 per cent (average) during October 2014 to March 2015; however, the firm has applied for additional working capital limit of Rs.5.00 crore, which is likely to ease liquidity pressure to some extent. SMERA believes BNJ will maintain healthy debt-protection metrics and comfortable working capital cycle over the medium term.

BNJ has limited financial flexibility on account of its low capital base of Rs.16.02 crore as on March 31, 2014. The firm's financial profile is susceptible to withdrawal of capital, which is an inherent risk in partnership entities. BNJ operates in an intensely competitive and fragmented segment of the jewellery industry. The firm's profit margins are highly susceptible to volatility in gold prices.

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Rating sensitivity factors:

- Ability to achieve sustained improvement in profitability
- Capital infusion by partners
- Working capital management
- Bank limit utilisation

Outlook: Stable

SMERA believes BNJ will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while achieving substantial improvement in profit margins and net worth. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the firm

BNJ is a Mumbai-based partnership firm promoted by Mr. Babulal Rawal. BNJ was established as a proprietorship concern in 1989; the firm was reconstituted as a partnership entity in 2004. BNJ undertakes manufacturing of gold jewellery, platinum jewellery and diamond-studded ornaments. The firm has a processing unit in Kalbadevi, Mumbai. The overall operations of the firm are managed by Mr. Babulal Rawal, Mr. Kalpesh Babulal Rawal and Mr. Nirmal Babulal Rawal.

For FY2013–14, BNJ reported profit after tax of Rs.3.98 crore on operating income of Rs.272.73 crore, as compared with profit after tax of Rs.5.14 crore on operating income of Rs.263.61 crore in the previous year. The firm is expected to report net sales of ~Rs.302.00 crore in FY2014–15. BNJ's net worth stood at Rs.16.02 crore as on March 31, 2014, as compared with Rs.15.60 crore a year earlier.

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