



SMERA RATINGS LIMITED

Shilpi Jewellers Private Limited (SJPL)

*Rating
Rationale*

August 31, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	42.00	SMERA BBB-/Stable (Assigned)
Term Loan	8.80	SMERA BBB-/Stable (Assigned)
Bank Guarantee/Standby Letter of Credit	2.00	SMERA A3 (Assigned)
Cash Credit (Proposed)	17.20	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and a short-term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.70.00 crore bank facilities of Shilpi Jewellers Private Limited (SJPL). The outlook is '**Stable**'.

The ratings derive comfort from the company's long track record of operations, experienced management, strong market position and established relationships with customers in the gems and jewellery industry. The ratings also derive comfort from the company's consistent revenue growth, stable operating profit margin, above-average financial risk profile and strong liquidity position driven by comfortable working capital cycle. However, the ratings are constrained by SJPL's exposure to fluctuation in gold and silver prices and intense competition in the gems and jewellery industry.

SJPL is a Mumbai-based company engaged in manufacturing and wholesaling of plain gold jewellery, silver ornaments and diamond studded jewellery. Shilpi Jewellers (the firm) was originally established as a proprietorship concern in 1988. The firm got converted into private limited company with effect from February 2008. SJPL benefits from its experienced management. Mr. Padam Soni and his two nephews, Mr. Pramod Mehta and Mr. Rajneesh Mehta, directors of the company, have around two decades of experience in the gems and jewellery industry. SJPL has an established presence in the wholesale jewellery business. The company deals with close to ~4000 retailers in the country and has maintained healthy relationship with its customers.

SJPL's revenues have grown at a strong compound annual growth rate (CAGR) of 21 per cent over the last three ended FY2014-15. For FY2014-15, SJPL reported operating income of Rs.504.17 crore (provisional), as compared with operating income of Rs.359.50 crore in the previous year. The company's operating profit margin has remained stable in the range of 2.10-2.30 per cent over the past three years. Going forward, the company's operating profit margin is expected to improve moderately, backed by foray into jewellery manufacturing segment.

SJPL's above-average financial risk profile is marked by net worth of Rs.41.51 crore (provisional) as on March 31, 2015, as compared with Rs.37.18 crore a year earlier. The company has subordinated

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interest-bearing unsecured loans of Rs.12.42 crore (as on March 31, 2015) from promoters and related parties. SMERA has treated such unsecured loans as quasi-equity. However unsecured loans from body corporates of Rs.5.79 crore has been treated debt because the loans are unlikely to be retained in the business over the medium term. SJPL's leverage (debt-to-equity ratio) stood at 1.24 times as on March 31, 2015. The company has modest interest coverage ratio of 1.66 times (provisional) and comfortable return on capital employed of 12.01 per cent (provisional) in FY2014-15.

SJPL has strong liquidity profile marked by bank limit utilization of ~60 per cent for the period Feb 2015 to July 2015. SJPL's working capital management has improved, with working capital cycle reducing to around 56 days as on March 31, 2015 from 84 days as on March 31, 2014, backed by improvement in debtors' levels. SMERA expects the working capital cycle to be maintained around 55-60 days over the medium term. With improvement in working capital cycle and fund support from promoters, the company's total outside liabilities to tangible net worth (TOL/TNW) stood at 2.15 times (provisional) as on March 31, 2015. While the company expects to contract additional working capital debt of Rs.17-20 crore in FY2015-16 to fund working capital requirements, its financial risk profile is likely to remain above-average, backed by moderate accretions and fund infusions by way of unsecured loans.

SJPL's business is exposed to fluctuation in gold and silver prices. SJPL's business is also exposed towards regulatory risks, wherein; any change in the market dynamics and regulatory environment may impact the company's revenues as well as profitability. The company also faces intense competition from other jewellery wholesalers in the gems and jewellery industry.

Outlook: Stable

SMERA believes SJPL will continue to benefit over the medium term from its strong market position, experienced management and established relationships with customers. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in profit margins while maintaining healthy revenue growth or in case of improvement in the company's capital structure or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profitability. The outlook may also be affected by deterioration in the company's capital structure on account of higher-than-expected debt-funded working capital requirements.

About the Company

The Mumbai-based SJPL, originally established as a proprietorship concern (named Shilpi Jewellers) in 1988 was converted to a private limited company in 2008. The company is a manufacturer and wholesaler of plain gold jewellery, silver ornaments and diamond studded jewellery and caters to various retailers across India. It recently set up a processing unit in

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Ghatkopar, Mumbai. The day-to-day operations are managed by Mr. Padam Soni and his two nephews, Mr. Pramod Mehta and Mr. Rajneesh Mehta.

For FY2014-15, SJPL reported profit after tax (PAT) of Rs.2.61 crore on operating income of Rs.504.17 crore, as compared with PAT of Rs.2.00 crore on operating income of Rs.359.50 crore in the previous year.

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