

Shilpi Jewellers Private Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit I	50.00 (enhanced from Rs.40.00 crore)	SMERA BBB-/Stable (Reaffirmed)
Term Loan	6.60 (reduced from Rs. 8.80 crore)	SMERA BBB-/Stable (Reaffirmed)
Cash Credit II	2.00	SMERA BBB-/Stable (Reaffirmed)
Bank Guarantee/ Standby Letter of Credit	7.00 (enhanced from Rs.2.00 crore)	SMERA A3 (Reaffirmed)
Proposed Cash Credit	4.40 (reduced from Rs.17.20 crore)	SMERA BBB-/Stable (Reaffirmed)

SMERA has reaffirmed the rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and '**SMERA A3**' (**read as SMERA A three**) assigned to the abovementioned bank facilities of Shilpi Jewellers Private Limited (SJPL). The outlook is '**Stable**'.

The ratings continue to derive comfort from the company's long track record of operations in gems and jewellery, experienced management, strong market position and established relationships with customers. The ratings also derive comfort from the consistent revenue growth, 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 fluctuations in gold and silver prices and intense competition in the gems and jewellery industry.

Update

SJPL's operating income increased to Rs.562.86 crore in FY2015-16, as compared with Rs.504.05 crore in FY2014-15. As indicated by the management, for the period April 2016 to June 2016, the company posted gross revenue of ~Rs.117.05 crore. The growth is mainly on account of improvement in the manufacturing activity and addition of new customers. The operating margin remained comfortable at 2.33 per cent in FY2015-16 as compared to 1.81 per cent in FY2014-15.

SJPL's above-average financial risk profile is marked by net worth of Rs.44.53 crore as on March 31, 2016, as compared with Rs.40.46 crore a year earlier. The company has subordinated interest-bearing unsecured loans of Rs.12.35 crore (as on March 31, 2016) from promoters and related parties. SMERA has treated such unsecured loans as quasi-equity. However, the company has treated unsecured loans from body corporates of Rs.2.50 crore as debt because the loans are unlikely to be retained in the business over the medium term. SJPL's leverage (debt-to-equity ratio) improved and stood at 1.00 times as on March 31, 2016 as compared to 1.27 times as on March 31, 2015. The interest coverage ratio stood at 2.25 times (PY: 1.44 times) and debt service coverage ratio at 1.46 times (PY: 1.27 times) in FY2015-16.

SJPL's working capital cycle stood at 61 days in FY2015-16 as against 62 days in FY2014-15. SMERA expects the working capital cycle to be maintained around 60 days over the medium term. The average bank limit utilisation is ~64 per cent for Feb 2016 to July 2016.

SJPL's business is exposed to fluctuations in gold and silver prices as also regulatory risks. Any change in the market dynamics and the 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.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Movement in the capital structure
- Working capital management

Outlook: Stable

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

Criteria Applied to arrive at the ratings:

- Manufacturing Entities
- Trade Entities

About the Company

The Mumbai-based SJPL, a proprietorship firm (Shilpi Jewellers) established in 1988 was converted to a private limited company in 2008. The company, a manufacturer and wholesaler of gold, silver and diamond jewellery, caters to retailers across India. It recently set up a processing unit in 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 FY2015-16, SJPL reported profit after tax (PAT) of Rs.4.14 crore on operating income of Rs.562.86 crore, as compared with PAT of Rs.1.56 crore on operating income of Rs.504.05 crore in the previous year.

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
31 Aug, 2015	Cash Credit	42.00	SMERA BBB- (Assigned)	-	Stable
	Term Loan	8.80	SMERA BBB- (Assigned)	-	Stable
	Bank Guarantee/Standby Letter of Credit	2.00	-	SMERA A3 (Assigned)	-
	Proposed Cash Credit	17.20	SMERA BBB- (Assigned)	-	Stable

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ABOUT SMERA

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