

Press Release

Karan Kothari Jewellers Private Limited (KKJPL)

9 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 88.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the above mentioned bank facilities of Karan Kothari Jewellers Private Limited (KKJPL). The outlook is '**Stable**'.

KKJPL was established in 1960 as M/s Kothari Jewellers by the Late Mr. Maganmal Kothari. In 1991 the name was changed to M/s Karan Jewellers and in 2004 the operations were taken over by Karan Kothari Jewellers Private Limited. The company, led by Mr. Narendra M. Kothari, Mr. Suresh M Kothari and Mr. Mahesh M. Kothari - the third generation of Mr Kothari and family, is engaged in the manufacturing and retailing of gold, silver and diamond jewellery through its three showrooms at Nagpur and one at Chandrapur.

Key rating drivers

Strengths

Experienced management and established track record of operations

Mr. Narendra M. Kothari and Mr. Suresh M. Kothari have experience of over three decades in the gems and jewellery business.

Above average financial risk profile

KKJPL has above average financial risk profile marked by tangible net worth of Rs. 69.89 crore as on 31st March, 2017 as against Rs. 62.95 crore as on 31st March, 2016. This includes unsecured loan of Rs. 20.34 crore as on 31 March, 2017 considered as quasi equity. The adjusted gearing stood at 0.99 times as on 31 March, 2017 as against 1.10 times as on 31 March, 2016. The debt of Rs. 69.15 crore mainly consists of working capital borrowings and no long term debt. The Interest Coverage Ratio (ICR) stood at 2.15 times for FY2017 as against 1.34 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.28 times as on 31 March, 2017 as against 1.52 times as on 31 March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times in FY2017 as against 0.04 times in FY2016. Going forward, SMERA expects the financial risk profile to improve marginally on account of the absence of debt funded capex plans.

Healthy growth in profitability margins

KKJPL registered revenue of Rs. 284.07 crore in FY2017 as against Rs. 275.39 crore in FY2016. Further, during the period April 2017 to October 2017 the company registered revenue of Rs. 145.45 crore. The operating margins improved to 7.72 percent in FY2017 from 5.13 percent in FY2016 mainly on account of increased sales of high margin diamond and stone jewellery. The Profit after tax (PAT) margins improved to 2.77 percent in FY2017 from 0.73 percent in FY2016. The increase in margins was mainly on account of increased income of Rs. 2.10 crore.

Weaknesses

Working capital intensive operations

KKJPL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 186 days in FY2017 compared to 197 days in FY2016. The GCA days are mainly dominated by high inventory days of 177 days in FY2017 as against 178 days in FY2016. The average cash credit utilisation for the past six months stood at ~90 percent. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Profitability susceptible to volatility in raw material prices

KKJPL's revenues and profitability margins are exposed to volatility in the prices of gold - the major raw material.

Intense market competition

The Gems & Jewellery (G&J) industry is characterised by a large number of organised and unorganised players resulting in pressure on margins.

SMERA believes that larger players like KKJPL will benefit from the healthy relationships with their clientele.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of KKJPL to arrive at the rating.

Outlook - Stable

SMERA believes that KKJPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	284.07	275.39	292.70
EBITDA	Rs. Cr.	21.08	14.11	13.77
PAT	Rs. Cr.	7.87	2.01	2.01
EBITDA Margin	(%)	7.42	5.13	4.70
PAT Margin	(%)	2.77	0.73	0.69
ROCE	(%)	16.75	10.76	22.01
Total Debt/Tangible Net Worth	Times	0.99	1.10	1.12
PBDIT/Interest	Times	2.15	1.34	1.35
Total Debt/PBDIT	Times	3.28	4.91	4.67
Gross Current Assets (Days)	Days	186	197	174

Any other information:

KKJPL has contingent liability of Rs. 71.58 crore on account of income tax in notes to accounts of annual report of FY2017. The company has filed an appeal against the same before the Commissioner of Income Tax, Nagpur which is yet to be heard. The management, however, expects no impact on the company's performance and financial position due to this matter.

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	68.00	SMERA BBB-/Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3
Bank guarantee (Proposed)	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3

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ABOUT SMERA

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