

Press Release

Karan Kothari Jewellers Private Limited

March 26, 2020

Rating Reaffirmed & Withdrawn



Total Bank Facilities Rated*	Rs. 73.00 Cr. (Reduced from Rs. 88.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 73.00 crore bank facilities of Karan Kothari Jewellers Private Limited (KKJPL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 15.00 crore bank facilities of KKJPL.

KKJPL was established in 1960 as M/s Kothari Jewelers by late Mr. Maganmal Kothari. In 1991 the name was changed to M/s Karan Jewellers and later in 2004 the running operations of M/s Karan Jewellers were taken over by Karan Kothari Jewellers Private Limited. The company is currently promoted by the third generation of Kothari Family. The company is engaged in retailing of Gold, Silver & Diamond Jewellery and is currently having four showrooms in Nagpur and one Showroom in Chandrapur.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Nagpur based, KKJPL was established in 1960; thus, the company has an operational track record of over six decades in Gems & Jewellery Industry. At present, the company's day to day operations are handled by the third generation of the Kothari family. The directors, Mr. Pradeep Kothari, Mr. Chandra Kothari and Mr. Nitin Kothari have an experience of around three decades in the aforementioned line of business. Mr. Karan Kothari is also the director and has around four years of experience in the industry. The long track record of operations along with extensive experience of the promoters has helped the company maintain a stable business risk profile. Acuité believes that KKJPL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Moderate financial risk profile**

The financial risk profile of the company stood moderate marked by tangible net worth of Rs. 74.88 crore as on 31 March, 2019 as against Rs. 72.16 crore as on 31 March, 2018. The tangible net worth comprises of quasi equity of Rs. 20.34 crore. The gearing (debt-to-equity) stood at 1.01 times as on 31 March, 2019 as against 0.98 times as on 31 March, 2018. The total debt outstanding of Rs. 75.28 crore as on 31 March, 2019 comprises of Rs. 68.12 crore of working capital borrowings and Rs. 7.17 crore of unsecured loans. The interest coverage ratio stood at 1.41 times for FY2019 as against 1.36 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood low at 1.36 times as on 31 March, 2019 as against 1.34 times as on 31 March, 2018. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and in the absence of any major debt funded capex in near to medium term.

Weaknesses

• Revenue Concentration

The company faces high store and geographic concentration risk. The company's total revenue is generated majorly from top 2 stores contributing to ~85-90 per cent of total revenue. The top 2 stores which contribute ~85-90 per cent are located in Nagpur. The high store concentration renders the revenue growth and profitability susceptible to the growth plans.

• Susceptibility to regulatory framework, and Intense Competition in Jewellery industry

Government's regulations aimed towards increasing transparency in the gold jewellery industry through mandatory PAN disclosures for transactions above Rs. 2 lakh and compulsory hallmarking impacting the gold jewellery demand could hinder near - term growth prospects of the company. Despite its longstanding presence in the business, KKJPL faces challenges of intensifying competition from national players, such as Titan Company Limited, Tribhovandas Bhimji Zaveri Limited, Kalyan Jewellers India Limited and other regional players as well as pan India players. Further, the fragmented nature of the industry has resulted in strong competitive pressures thereby squeezing players' margins.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margin
- Higher than expected debt funded capex
- Steep decline in same store sales growth

Any Material Covenants

None

Liquidity Position: Adequate

KKJPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 3.45 crore for FY2019 against no debt obligation. The cash accruals of the company are estimated to remain in the range of ~Rs. 4.00 crore to Rs. 6.00 crore during 2020-22 against no debt obligation of the same period. The company's working capital operations are intensive marked by GCA days of 197 days for FY2019. This has led to increased reliance on working capital borrowings. The cash credit limit utilization stood at 98.75 percent for the past six months ended February 2020. The company maintains unencumbered cash and bank balances of Rs. 1.09 crore as on 31 March, 2019. The current ratio stood healthy at 1.72 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals and no repayments over the medium term.

Outlook: Stable

Acuite believes that KKJPL will maintain a 'Stable' outlook and benefit over the medium term on the back of its promoter's industry experience. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant pile in inventory levels.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	288.84	267.88
PAT	Rs. Cr.	2.56	2.43
PAT Margin	(%)	0.89	0.91
Total Debt/Tangible Net Worth	Times	1.01	0.98
PBDIT/Interest	Times	1.41	1.36

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Apr-2019	Cash Credit	Long Term	68.00	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
09-Jan-2018	Cash Credit	Long Term	68.00	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not applicable	Not applicable	Not applicable	68.00*	ACUITE BBB- /Stable (Reaffirmed)
Bank Guarantee	Not applicable	Not applicable	Not applicable	5.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not applicable	Not applicable	Not applicable	15.00	ACUITE A3 (Withdrawn)

*Sublimit of PC/FBP/FBD/PCFC to the extent of Rs.7.50 crore, FCNR to the extent of Rs.10.00 crore, Import LC to the extent of Rs.10.00 crore and WCDL to the extent of Rs.40.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Priyal Jain Analyst - Rating Operations Tel: 022-49294043 priyal.jain@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

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