

## Press Release

### Karan Kothari Jewellers Private Limited

April 29, 2021



#### Rating Reaffirmed & Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs.80.00 Cr. (Enhanced from Rs.73.00 Cr.)
<b>Long Term Rating</b>	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed and Withdrawn)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.80.00 Cr (enhanced from Rs.73.00 crore) bank facilities of Karan Kothari Jewellers Private Limited (KKJPL). The outlook is '**Stable**'.

Acuité has also reaffirmed and withdrawn the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the previously rated bank facilities of Rs.5.00 crore as per the withdrawal request of KKJPL and no due certificate received from the banker in accordance with Acuité withdrawal Policy.

The rating reaffirmation draws comfort from long track record of operations and experienced management, moderate financial risk profile and adequate liquidity position marked by adequate cash accruals against moderate repayment obligations. The rating, however, continues to remain constrained on account of working capital intensive operations marked by high inventory levels, reduction of unsecured loans in FY2020 and expected impact on the operations due to global outbreak of COVID-19.

#### About the Company

Mumbai-based, 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 promoted by Mr. Chandra S. Kothari, Mr. Nitin M. Kothari, Mr. Pradeep M. Kothari and Mr. Karan N. Kothari. 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 taken a standalone view of the business and financial risk profile 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. Chandra S. Kothari, Mr. Nitin M. Kothari, Mr. Pradeep M. Kothari and Mr. Karan N. Kothari have an experience of around three decades in the aforementioned line of business. 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 the company will continue to benefit from the promoters' established presence in improving its business risk profile over the medium term.

###### • **Moderate financial risk profile**

The financial risk profile of KKJPL is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing stood at 0.84 times as on March 31, 2020 against 0.94 times as on March 31, 2019 on account of plough back of profits to reserves. TOL/TNW stood at 1.31 times as on March 31, 2020 against 1.29 times as on March 31, 2019. Tangible

net worth of the company stood modest at Rs.80.25 crore (includes quasi equity of Rs.22.75 crore) as on March 31, 2020 against Rs.77.29 crore (includes quasi equity of Rs.22.75 crore) as on March 31, 2019. The total debt of Rs.67.18 crore as on March 31, 2020 mainly consists of short-term debt of Rs.67.08 crore and unsecured loans of Rs.0.10 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.50 times and 0.07 times respectively in FY2020; while DSCR stood at 1.40 times in FY2020.

The company has availed Covid loan, i.e. Baroda Covid Emergency Credit Line – BCECL of Rs.6.80 crore (10% of cash credit facility) which is a sublimit of cash credit facility. The Covid loan is a part of total assessed limits of Rs.80.00 crore and the clients drawing power will increase every month to the tune of decrease in the covid limit with monthly repayment of installments. The loan was disbursed in the month of April, 2020. The repayment is expected to be completed in 2023. The company has applied for another covid loan- 20% of the cash credit facility which is yet to be sanctioned. The company had availed interest moratorium from March, 2020 to August, 2020 for which repayment has been completely made in September, 2020.

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

- **Working capital intensive operations**

KKJPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 219 days in FY2020 against 197 days in FY2019. The inventory days increased and stood at 204 days in FY2020 against 193 days in FY2019; since diamond jewellery is slow moving in terms of sales. Inventory majorly consists of gold, diamond, etc. and the company maintains an inventory holding policy of 90 days for gold and 120 days for diamond. Chances of cancellation of orders is less and sometimes happens majorly due to customer design preferences, etc. The debtors' days stood at 15 days in FY2020 against 12 days in FY2019 which is corresponding to normal terms with the customers. However, working capital bank lines remained highly utilized at ~98.23 percent for last trailing 13 months ended February, 2021.

Acuité believes that KKJPL's working capital intensive operations is expected to be mitigated by the availability of adequate liquidity over the medium term.

- **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 ~30-45 percent of total revenue. The top 2 stores which contribute ~30-45 percent 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.2.00 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

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

## Material Covenants

None

## Liquidity: Adequate

KKJPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.3.04 crore – Rs.4.63 crore during the last three years through FY2018-20 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.3.86 crore – Rs.5.37 crore over the medium term, against moderate repayment obligations in the range of Rs.0.34 crore – Rs.4.56 crore. Unencumbered cash and bank balances stood at Rs.2.65 crore as on March 31, 2020 with a current ratio of 1.62 times in the same period. Liquid investments stood at Rs.2.30 crore as on March 31, 2020. The working capital limits remained highly utilized at ~98.23 percent for last trailing 13 months ended February, 2021.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals

against moderate repayment obligations.

#### **Outlook: Stable**

Acuité believes that KKJPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins and improving debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	276.72	288.84
PAT	Rs. Cr.	2.96	2.56
PAT Margin	(%)	1.07	0.89
Total Debt/Tangible Net Worth	Times	0.84	0.94
PBDIT/Interest	Times	1.50	1.41

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

Not Applicable

#### **Any other information**

Not Applicable

#### **Applicable Criteria**

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

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

#### **Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Mar-2020	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 (Withdrawn)
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	80.00 \$	ACUITE BBB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00 @	ACUITE A3 (Reaffirmed and Withdrawn)

\$ Sublimit of CC- BCECL (covid 19) to the extent of Rs.6.80 crore, PC/FBP/FBD/PCFC to the extent of Rs.7.50 crore, FCNR (B) to the extent of Rs.10.00 crore, Import LC/UPAS to the extent of Rs.10.00 crore, WCDL (RWI) to the extent of Rs.73.00 crore and IBG/ILC (DP/DA upto 90 days) to the extent of Rs.5.00 crore.

@ Amount not included in the total facilities rated.

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**About Acuité Ratings & Research:**

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,681 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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