

Press Release

Karan Kothari Jewellers Private Limited

June 24, 2022

Rating Assigned and Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.43	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	80.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	100.43	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

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

Acuite has also assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.20.43 crore bank facilities of KKJPL. The outlook is '**Stable**'.

Rationale for rating upgrade:

The upgrade in the rating considers established long track record of the company along with extensive experience of promoters which is also reflected in continuous improvement in the scale of operations from last three years. Further, the rating draws comfort from moderate financial risk profile marked by low gearing and moderate debt protection metrics along with adequate liquidity. However, the above mentioned strengths are constrained by working capital intensive operations and intense competitive nature of industry.

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. Pradeep M. Kothari, Ms. Shivani Sadaphal 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

Acuite 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 along with improvement in the revenues

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. Pradeep M. Kothari, Ms. Shivani Sadaphal 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. The turnover of KKJPL improved and stood at Rs.392.76 crore in FY2021 as against 276.72 crore in FY2020. The turnover further improved and stood at Rs.456.48 crore in FY2022 (Prov.). The turnover improved in FY2021 & FY2022 majorly due to increase in the demand, price and volume. The Company has monthly orders in hand worth Rs.2.5-3 crores and are executed monthly. The company has also started participating in exhibitions locally in FY2023 from which it is expected to generate Rs.20-30 crore per year revenues going forward. The company has also been approved to trade on jewellery stock exchange (IIBX IFSC Ltd). Only 48 companies have been given this approval by the government and KKJPL is one among them. This is also expected to improve the revenues going forward.

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

Financial risk profile of KKJPL is moderate marked by low gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 0.93 times as on March 31, 2021 against 0.84 times as on March 31, 2020. TOL/TNW stood at 1.34 times as on March 31, 2021 against 1.31 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.83.16 crore as on March 31, 2021 (includes quasi equity of Rs.22.75 crore) against Rs.80.25 crore as on March 31, 2020 (includes quasi equity of Rs.22.75 crore). Of the total debt of Rs.76.94 crore as on March 31, 2021, short-term debt stood at Rs.71.15 crore and unsecured loans stood at Rs.5.78 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.56 times and 0.06 times respectively in FY2021; while DSCR stood at 1.43 times in FY2021. The financial risk profile is moderate in FY2022 as well marked by low gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics.

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 have improved but are still intensive marked by Gross Current Asset days (GCA) of 164 days in FY2021 against 218 days in FY2020. This is majorly due to high inventory days. The inventory days stood at 154 days in FY2021 against 204 days in FY2020. Inventory majorly consists of gold, diamond, etc. The company maintains an inventory holding policy of 90 days for gold and 120 days for diamond. The debtors' days improved and stood at 12 days in FY2021 against 15 days in FY2020. The customers make immediate payment 99% of the time or the credit period given to customers is around 15 days. The creditors' days improved and stood at 26 days in FY2021 against 43 days in FY2020. The company enjoys a credit period of 30-60 days from their suppliers. Sometimes, the company makes immediate payment. However, Cash Credit facility from BOB remained utilized at 79.44 percent for last 6 months ended May, 2022 and Cash Credit facility from HDFC bank remained utilized at 87.27 percent for last 3 months ended April, 2022.

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 ~40-45 percent of total revenue. The top 2 stores which contribute ~40-45 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 Position: 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.3.45 crore – Rs.4.63 crore during the last four years through FY2019-21 against nil repayment obligations during the same period. It is expected to generate cash accruals in the range of Rs.10.14 crore – Rs.20.02 crore over the medium term, against moderate repayment obligations in the range of Rs.2.80 crore – Rs.3.36 crore. Unencumbered cash and bank balances stood at Rs.2.07 crore as on March 31, 2021 with a current ratio of 1.69 times in the same period. Liquid investments stood at Rs.4.34 crore as on March 31, 2021. However, Cash Credit facility from BOB remained utilized at 79.44 percent for last 6 months ended May, 2022 and Cash Credit facility from HDFC bank remained utilized at 87.27 percent for last 3 months ended April, 2022.

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 margins. 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	392.76	276.72
PAT	Rs. Cr.	2.91	2.96
PAT Margin	(%)	0.74	1.07
Total Debt/Tangible Net Worth	Times	0.93	0.84
PBDIT/Interest	Times	1.56	1.50

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 Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Apr 2021	Cash Credit	Long Term	80.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Withdrawn)
26 Mar 2020	Cash Credit	Long Term	68.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Withdrawn)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
09 Apr 2019	Cash Credit	Long Term	68.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	5.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Bank of Baroda	Not Applicable	Working Capital Term Loan	28-05-2021	9.25	30-06-2026	13.60	ACUITE BBB Stable Assigned
Bank of Baroda	Not Applicable	Working Capital Term Loan	29-03-2022	9.25	30-04-2028	6.83	ACUITE BBB Stable Assigned

NOTE:

***Cash Credit from Bank of Baroda includes sublimit of BCECL (Covid 19) of Rs.2.65 crore, PC/FBP/FBD/PCFC of Rs.7.50 crore, FCNR (B) of Rs.10.00 crore, Import LC / UPAS of Rs.10.00 crore, WCDL of Rs.43.00 crore and IBG / I LC (DP/DA upto 90 days) of Rs.5.00 crore.**

#Cash Credit from HDFC bank includes sublimit of WCDL of Rs.30.00 crore and gold loan of Rs.25.00 crore.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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