

December 06, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	3.00	SMERA BBB- / Stable (Assigned)

SMERA has assigned a rating of '**SMERA BBB-**' (**read as SMERA Triple B Minus**) to the Rs.3.00 crore fund based bank facilities of Shreenathji Jewellers (SNJ). The outlook is '**Stable**'. The rating derives comfort from the firm's experienced management, consistent revenue growth and strong debt-protection metrics. The rating also factors in the firm's low exposure to counterparty credit risk. However, the rating is constrained by the firm's modest operating scale, low profitability and susceptibility to volatility in gold and silver prices. The rating also factors in the firm's exposure to unfavourable changes in government policy on gold imports.

SNJ, established in 1995, is a Gujarat-based partnership firm engaged in manufacturing and trading of gold, silver, platinum and diamond studded jewellery. SNJ benefits from its experienced management team. The firm's partners have around two decades of experience in the gems and jewellery industry. SNJ's financial risk profile benefits from low leverage at 0.86 times as on March 31, 2013, healthy interest coverage of 3.18 times in FY2012-13 (refers to financial year, April 01 to March 31) and absence of long-term debt. The rating also factors in the firm's low reliance on external borrowings for working capital requirements. Further, SNJ has low exposure to counterparty credit risk since the firm sells mainly on cash basis.

SNJ has a modest operating scale with net sales of Rs.72.98 crore in FY2012-13. However, the firm registered strong revenue growth of 53 per cent (CAGR) over the last five years. SNJ reported net profit margin of 1.26 per cent in FY2012-13 as compared with net profit margin of 1.39 per cent in FY2011-12. The firm has maintained net profit margin in the range of 1.2 per cent to 1.4 per cent over the past three years. SNJ's profitability is susceptible to fluctuations in gold and silver prices. Moreover, the firm's business is exposed to the risk of adverse changes in gold import policy of the government.

Outlook: Stable

SMERA believes that SNJ will continue to benefit over the medium term from its promoters' extensive experience in the gems and jewellery industry. The outlook may be revised to 'Positive' in case the firm achieves a sustained improvement in revenues and profitability without a corresponding deterioration in the working capital cycle and leverage. Conversely, the outlook may be revised to 'Negative' in case of a decline in the firm's profit margins or revenues. The outlook is also sensitive to a major deterioration in the firm's capital structure.

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About the firm

SNJ is a partnership firm established in 1995 by the Sheth family. SNJ is engaged in manufacturing and trading of gold, silver, platinum and diamond studded jewellery. The firm has a processing unit and a showroom in Godhra, Gujarat.

For FY2012-13, SNJ reported PAT of Rs.0.92 crore on operating income of Rs.72.98 crore, as compared with PAT of Rs.0.98 crore on operating income of Rs.70.99 crore for FY2011-12. Further, the firm reported operating income of Rs.52.73 crore during April 2013 to November 2013. SNJ's net worth stood at Rs.5.86 crore as on March 31, 2013, as compared with Rs.5.27 crore a year earlier.

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