

December 04, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	25.00	SMERA BB-/Stable (Upgraded from SMERA B+/Stable)

SMERA has upgraded the long-term rating of Chawla Jewellers (CJ) to '**SMERA BB-**' (read as **SMERA double B minus**) from 'SMERA B+' (read as SMERA B plus). The outlook is '**Stable**'.

The upgrade reflects improvement in the financial risk profile backed by increase in operating margin to 6.42 per cent in FY2014-15 from 5.69 per cent in FY2013-14 and healthy gearing which stands at 0.96 times in FY2014-15. The rating upgrade also takes into account the improvement of inventory days from 478 days in FY2013-14 to 335 days in FY2014-15. SMERA also factors in the expected improvement in the credit risk profile of CJ, with the closure of its rented showroom at South Extension, New Delhi. This is likely to result in better operating margins and improvement in working capital position.

The ratings continue to be supported by the firm's long track record of operations, experienced management and established relations with customers. However, the ratings remain constrained by the decline in the top line of the firm and working capital intensive nature of business.

Update

CJ registered healthy growth in revenue and net profit margin during FY2014-15. While revenue increased from Rs.78.10 crore in FY2013-14 to Rs.90.64 crore in FY2014-15, the net profit margin improved from 0.66 per cent in FY2013-14 to 0.76 per cent in FY2014-15. The interest coverage ratio increased from 1.46 times in FY2013-14 to 1.56 times in FY2014-15. SMERA believes CJ will register healthy growth in revenues and profitability over the medium term owing to its strong order book position and established relations with customers.

The firm has moderate-scale of operations with revenue of Rs.90.64 crore in FY2014-15. CJ faces intense competition in the gems and jewellery industry and the profit margins are susceptible to adverse movements in gold and diamond prices.

Outlook: Stable

SMERA believes that CJ will continue to benefit from the extensive experience of its promoter in the jewellery industry. The outlook may be revised to 'Positive' in case the company registers better-than-expected growth in revenues and accruals, or if business risk profile improves through greater geographical diversification. Conversely, the outlook may be revised to 'Negative' if the firm registers lower-than-expected revenues and profitability or lengthening of working capital cycle, resulting in deterioration in the debt coverage metrics.

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Rating Sensitivity Factors

- Management of working capital funds
- Decrease in the inventory level

About the Firm

CJ, incorporated in 1995 by Mr. OP Chawla, Mr. Hemant Chawla and Mr. Rahul Chawla is engaged in the manufacturing and trading of gold, diamond jewellery and precious stones. The firm has four showrooms in Delhi and one in Gurgaon, Haryana.

For FY2014–15, CJ reported profit after tax (PAT) of Rs.0.69 crore on operating income of Rs.90.64 crore, as compared with PAT of Rs.0.50 crore on operating income of Rs.75.06 crore in FY2013–14. The firm's net worth stood at Rs.31.51 crore as on March 31, 2015 as compared with Rs.30.94 crore a year earlier. CJ has reported operating income of Rs.34.06 crore till September 30, 2015.

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