K's Jewellery & Co. (KJC)

March 21, 2013 - Mumbai

Facilities / Instruments	Amount (Rs. Crore)	Rating
Packing Credit	**8.5**	**SMERA BB-/Stable (Assigned)**
Post Shipment Credit	**7.0**	**SMERA BB-/Stable (Assigned)**
Proposed Packing Credit / Post Shipment Credit	**4.7**	**SMERA BB-/Stable (Assigned)**

SMERA has assigned a rating of **'SMERA BB-' (read as SMERA Double B minus)** to K's Jewellery & Co's (KJC) Rs.20.2 crore bank facilities. The outlook is '**Stable'.** The ratings are constrained by the company's modest scale of operations, high customer concentration, counter party payment risk, cost and currency fluctuation risk. Susceptibility to raw material and high employee costs also constrains KJC's operating efficiency. However the rating derives comfort from the company's experienced management, consistent revenue growth, and moderate debt protection metrics.

KJC is a medium sized-jewellery manufacturer and a 100 per cent Export Oriented Unit (EOU) operating in a heavily fragmented and competitive Gems and Jewellery (G&J) segment. The company's top five customer's account for 94 per cent of total sales and the company is exposed to counter party payment risk arising out of Non-LC backed export receivables. KJC's profitability is also susceptible to adverse movements in raw material prices and currency fluctuation risks (partly mitigated by firm orders against which the company procures raw material and hedges export revenues through forward covers). The company's operating efficiency is also constrained by high employee expenses arising from 100 per cent on-roll permanent employees.

The abovementioned risks are partly mitigated by the promoters' four-decade long experience in the G&J business. KJC's revenues have steadily grown over the last four years (CAGR of 25 per cent). The company has longstanding relationships with key customers and sales to those customers have increased over the years despite a slowdown in worldwide jewellery demand. The company's rating also benefits from moderate gearing levels (1.42 times as on March 31, 2012, as compared to 1.51 times a year earlier) and absence of long term debt. The interest coverage ratio has also remained steady over the years.

Rating Sensitivity Factors

- Scaling up its operations amidst an uncertain European environment.
- Improving profitability given price fluctuation risk associated with precious metals and currency fluctuation risk.
- Keeping the working capital requirements in check given the working capital intensive nature of operations.

Outlook – Stable

SMERA believes that despite muted growth and profitability in the near term KJC will be able to successfully maintain its credit risk profile given its long standing presence in the market aided by relationships with its key customers. The outlook could be revised to 'Positive' if KJC increases its clientele and maintains steady growth despite uncertainty in key markets. Conversely, the outlook may be revised to 'Negative' if the company suffers higher than anticipated de-growth in sales because of subdued demand or if its financial risk profile weakens because of adverse change in working capital requirements.

About the Company

KJC, established in 1997, is a closely held partnership firm promoted by Mr. Ajay F. Jhaveri. The operations of the business are managed primarily by his son Mr. Apurva Ajay Jhaveri. KJC is engaged in manufacturing and export of diamond & precious stone studded gold and platinum jewellery. It is a 100% EOU involved in B2B sales with clients in Europe, USA, UK and Australia. The company owns a manufacturing facility in Mumbai. The firm also has an associate concern, M. Shashikant & Co., operational since 40 years, engaged in trading of cut and polished diamonds.

For FY 2011-12, KJC reported a PAT of Rs.0.5 crore on net sales of Rs. 71.1 crore as compared to a PAT of Rs.0.3 crore on net sales of Rs.56.0 crore for FY 2010-11. For the nine months ended December 31, 2012, KJC reported a PAT of Rs.1.6 crore on net sales of Rs.59.8 crore (provisional).

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