

March 26, 2014

Facilities	Amount (Rs. Crore)	Rating
<b>Export Packing Credit (EPC)</b>	<b>8.00</b>	<b>SMERA BB-/Stable (Reaffirmed)</b>
<b>Post Shipment Credit (PSC)</b>	<b>8.00</b>	<b>SMERA BB-/Stable (Reaffirmed)</b>
<b>Proposed EPC / PSC</b>	<b>4.20</b>	<b>SMERA BB-/Stable (Reaffirmed)</b>

SMERA has reaffirmed rating of '**SMERA BB-**' (read as SMERA double B minus) to the Rs.20.20 crore bank facilities of K's Jewellery & Co. (KJC). The outlook is '**Stable**'. The rating continue to remain constrained by the firm's modest scale of operations, low profitability, high level of customer concentration and working capital-intensive operations in an intensely competitive business environment. The rating is also constrained by the susceptibility of the firm's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. However, the rating continues to draw comfort from the firm's experienced management, consistent revenue growth and moderate financial risk profile.

### Update

KJC reported net sales of Rs.81.41 crore (provisional) during April 2013 to December 2013, as compared with net sales of Rs.59.80 crore for the corresponding period of the previous year, mainly on account of better realization on export sales. For FY2012-13 (refers to financial year, April 01 to March 31), KJC reported net profit of Rs.0.50 crore on net sales of Rs.75.72 crore, as compared with net profit of Rs.0.46 crore on net sales of Rs.71.15 crore for FY2011-12.

KJC's profitability is susceptible to adverse fluctuations in gold prices and foreign exchange rates. The aforementioned risks are mitigated by the firm's practice of procuring gold against confirmed orders and hedging export receivable through forward covers. KJC's net profit margin has remained low at 0.66 per cent in FY2012-13, as compared to 0.65 per cent in FY2011-12.

KJC remains exposed to high level of customer concentration risk as the firm derives ~99 per cent of its revenues from five customers.

KJC's operations are working capital-intensive. The firm has high gross current assets (GCA) of 175 days as on March 31, 2013 on account of inventory holding period of ~100-110 days and collection period of 60-70 days. Consequently, the firm's average bank limit utilisation is high at ~93 per cent during February 2013 to January 2014.

KJC has maintained a moderate financial risk profile marked by gearing (debt-equity ratio) of 1.66 times as on March 31, 2013 and interest coverage ratio of 1.56 times in FY2012-13. The firm does not have any long term debt as on March 26, 2014.

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**Outlook: Stable**

SMERA believes KJC will continue to benefit over the medium term from its long track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm achieves substantial improvement in its scale of operations while maintaining operating profit margin and coverage indicators at comfortable levels. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenue growth amidst intensifying competition in its key markets, or in case of deterioration in the firm's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

**About the firm**

KJC, established in 1997, is a Mumbai-based partnership firm promoted by Mr. Ajay F. Jhaveri. The overall operations of the firm are managed by Mr. Apurva Ajay Jhaveri (son of Mr. Ajay F. Jhaveri). KJC is engaged in manufacturing and export of diamond and precious stone studded gold and platinum jewellery. The firm is a 100% Export Oriented Unit (EOU) catering to wholesalers and retailers in Europe, USA and UK. KJC has a manufacturing facility in Mumbai. The firm has an associate concern (M. Shashikant & Co.) engaged in trading of cut and polished diamonds over a period of around four decades.

For FY2012-13, KJC reported net profit of Rs.0.50 crore on net sales of Rs.75.72 crore, as compared with net profit of Rs.0.46 crore on net sales of Rs.71.15 crore for FY2011-12. Further, the firm reported net sales of Rs.81.41 crore (provisional) during April 2013 to December 2013, as compared with net sales of Rs.59.80 crore for the corresponding period of the previous year. KJC's tangible net worth stood at Rs.9.03 crore as on March 31, 2013, as compared with Rs.9.97 crore a year earlier.

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