February 20, 2015

Facilities	Amount (Rs. Crore)	Ratings
Export Packing Credit (EPC)	8.00	SMERA BB+/Stable (upgraded from SMERA BB-/Stable)
Post Shipment Credit (PSC)	8.00	SMERA BB+/Stable (upgraded from SMERA BB-/Stable)
Bank Guarantee	0.75	SMERA A4+ (Assigned)
EPC/PSC (proposed)	3.45	SMERA BB+/Stable (upgraded from SMERA BB-/Stable)

SMERA has upgraded the long-term rating of K's Jewellery & Co. (KJC) to **'SMERA BB+' (read as SMERA double B plus)** from **'SMERA BB-'**. Further, SMERA has assigned the rating of **'SMERA A4+' (read as SMERA A four plus)** to the Rs.0.75 crore short-term bank facility of KJC. The outlook is **'Stable'**.

The upgrade reflects improvement in the firm's business and financial risk profile. The upgrade also factors in the expected improvement in the firm's operating efficiency. The ratings continue to draw comfort from the firm's established track record of operations, experienced management and healthy revenue growth. The ratings also draw comfort from the firm's established relations with customers. However, the ratings remain constrained by the firm's low net profit margin and working capital-intensive operations. The ratings are also constrained by the firm's exposure to customer concentration risk in an intensely competitive segment of the jewellery industry. The ratings note that the firm's profit margins are susceptible to volatility in raw material prices and fluctuations in foreign exchange rates.

Update

KJC registered net profit of Rs.0.73 crore on net sales of Rs.105.84 crore in FY2013–14, as compared with net profit of Rs.0.50 crore on net sales of Rs.75.72 crore in FY2012–13. The firm registered net sales of Rs.73.51 crore (provisional) for the period April 2014 to December 2014, as compared with net sales of Rs.81.41 crore for the corresponding period of the previous year.

KJC's profitability is susceptible to adverse fluctuations in gold prices and foreign exchange rates. The aforementioned risks are partially offset by the firm's practice of procuring gold against confirmed orders and hedging export receivable through forward contracts. KJC reported operating profit margin of 2.52 per cent in FY2013–14. The firm's operating profit margin is expected to improve in FY2014–15 on account of decline in employee expenses and inventory holding cost. KJC's net profit margin has remained low at 0.69 per cent in FY2013–14.

KJC remains exposed to high level of customer concentration as the firm derives ~95 per cent of its revenues from five customers. However, the firm benefits from its long-standing relations with customers.

KJC's operations are working capital-intensive. The firm purchases raw material against advance payments, while customers are given credit of 60–75 days. Moreover, KJC holds inventory for 40–50 days. KJC's average utilisation of bank limits stood at ~79 per cent during July 2014 to December 2014.

KJC registered improvement in its financial risk profile. The firm's interest coverage ratio increased to 1.77 times in FY2013–14 from 1.56 times in FY2012–13. KJC's tangible net worth increased to Rs.10.54 crore as on March 31, 2014 from Rs.9.03 crore as on March 31, 2013 on account of capital infusion and full retention of profits. The firm's gearing improved to 1.41 times as on March 31, 2014 from 1.66 times in the previous year. Moreover, the partners have retained Rs.1.74 crore of interest-free unsecured loans (subordinated to bank debt) in the business. SMERA expects KJC's financial risk profile to improve further on account of increase in operating profitability. The firm does not have any long-term debt as on February 19, 2015. Moreover, KJC has no debt-funded capex planned over the medium term.

Rating sensitivity factors

- Improvement in operating profitability
- Working capital management
- Bank limit utilisation

Outlook: Stable

SMERA believes KJC will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. KJC is also poised to benefit from the government's focus on increasing export of gems and jewellery. The outlook may be revised to 'Positive' in case the firm registers sustained improvement in revenues and profitability without a corresponding deterioration in liquidity position and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of significant deterioration in the firm's capital structure and liquidity position.

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 gold and platinum jewellery studded with diamonds and precious stones. 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's associate concern (M. Shashikant & Co.) is engaged in trading of cut and polished diamonds since four decades.

For FY2013–14, KJC reported profit after tax of Rs.0.73 crore on net sales of Rs.105.84 crore, as compared with profit after tax of Rs.0.50 crore on net sales of Rs.75.72 crore in the previous year. Further, the firm reported net sales of Rs.73.51 crore (provisional) during April 2014 to December 2014, as compared with net sales of Rs.81.41 crore for the corresponding period of the previous year. KJC's net worth stood at Rs.10.54 crore as on March 31, 2014, as compared with Rs.9.03 crore a year earlier.

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