

Press Release

Ks Jewellery & Co.

27 December, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 24.00 crore bank facilities of Ks Jewellery & Co. The outlook is '**Stable**'.

K's Jewellery & Co (KJC), established in 1997, is a Mumbai-based partnership firm engaged in the manufacture and export of gold and platinum jewellery. The firm, promoted by Mr. Ajay F. Jhaveri is a 100 per cent Export Oriented Unit (EOU) that caters to wholesalers and retailers in Europe, USA and UK. The manufacturing facility is located at Mumbai and has installed capacity of 300 kgs. The current utilisation stands at 255 kgs annually. The overall operations are led by Mr. Apurva Ajay Jhaveri.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

KJC, is a Mumbai based partnership firm, established in 1997. The firm was promoted by Mr. Ajay F. Jhaveri and is currently managed by Apurva A. Jhaveri. The partners have more than a decade of experience in the gems and jewellery industry.

Moderate scale of operations

The operating income stood at Rs.131.65 crore in FY2017 (Provisional) compared to Rs.84.82 crore in FY2016. The growth is mainly on account of increased demand from the export market. Further, for Q1FY2018, the operating income stood at Rs. 49.00 crore.

Moderate financial risk profile

KJC has a moderate financial risk profile marked by networth of Rs.14.83 crore as on 31 March, 2017 (Provisional) as against Rs. 13.31 crore in the previous year. This is mainly due to retention of profits and infusion of capital. The net worth includes subordinated unsecured loans of Rs. 1.17 crore treated as quasi equity as on 31 March, 2017. The gearing (debt-to-equity ratio) stood at 1.04 times as on 31 March, 2017 (Provisional) as against 0.77 times as on 31 March, 2016. The total debt of Rs. 15.45 crore mainly consists of working capital borrowings. The interest coverage ratio (ICR) stood at 2.11 times in FY2017 (Provisional) compared to 2.28 times in FY2016. In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.09 times as against 0.11 times in FY2016.

Weaknesses

• Declining margins

The operating margins (EBIDTA) stood at 2.01 percent in FY2017 (Provisional) as against 2.26 percent in FY2016 and 2.38 percent in FY2015. The decline is mainly due to increase in raw material cost as a per cent of total sales. The Net margins (PAT) stood at 0.73 percent in FY2017 (Provisional) as

Compared to 0.76 percent in FY2016.

Working capital intensive operations

KJC's operations are working capital intensive marked by high gross current assets (GCA) of 122 days in FY2017 as against 173 days in FY2016. The GCA improved mainly on account of reduced inventory holding of 54 days in FY2017 as against 104 days in FY2016 and debtors of 52 days in FY2017 as compared to 57 days in FY2016. The working capital limit utilisation stood at 91 per cent in the last six months ended August 2017. KJC has unencumbered cash and bank balance of Rs.3.37 crore as on 31 March, 2017 (Provisional).

Customer concentration risk

KJC is a 100 per cent export oriented unit. It caters to clients in USA, France, Sweden, Finland London among others. The firm is susceptible to customer concentration risk since its top three clients - Coast Diamond, Iduna AB and Messika group, contributed ~79 per cent to total sales in FY2017.

Susceptibility to fluctuations in forex rates and raw material prices

KJC generates revenue from exports. Also, around 25 per cent of the diamonds are imported from UAE, Hong Kong, Israel etc. As a result, the firm is exposed to fluctuations in forex rates. However, the firm hedges about 70 per cent of its foreign exchange risk. Besides, raw material cost constitutes ~89 per cent of total cost of sales which exposes the firm to volatility in the prices of raw materials.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that KJC will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of substantial increase in revenues and profitability while sustaining its liquidity position and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue, profit margins or deterioration in the financial risk profile. Elongation of working capital cycle may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	131.65	84.82	93.77
EBITDA	Rs. Cr.	2.64	1.92	2.23
PAT	Rs. Cr.	0.96	0.64	0.69
EBITDA Margin	(%)	2.01	2.26	2.38
PAT Margin	(%)	0.73	0.76	0.74
ROCE	(%)	8.23	6.43	7.81
Total Debt/Tangible Net Worth	Times	2.13	2.24	1.97
PBDIT/Interest	Times	2.11	2.28	1.88
Total Debt/PBDIT	Times	5.85	5.31	4.62
Gross Current Assets (Days)	Days	122.30	173.56	134.01

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three year)

Date	Name of Instrument	Term	Amount (Rs. Crore)	Ratings/Outlook
	/ Facilities			
25-September, 2017	Packing Credit	Long Term	INR 8.00	SMERA BB+ / Stable (Reaffirmed)
	Post Shipment Credit	Long Term	INR 8.00	SMERA BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 1.00	SMERA A4+ (Reaffirmed)
	Proposed Packing Credit	Long Term	INR 3.20	SMERA BB+ / Stable (Reaffirmed)
16-May-2017	Bank Guarantee	Short Term	INR 0.75	SMERA A4+ (Indicative)
	Packing Credit	Long Term	INR 8	SMERA BB+ / Stable (Indicative)
	Post Shipment Credit	Long Term	INR 8	SMERA BB+ / Stable (Indicative)
	Proposed Packing Credit	Long Term	INR 3.45	SMERA BB+ / Stable (Indicative)
28-Dec-2015	Bank Guarantee	Short Term	INR 0.75	SMERA A4+ (Reaffirmed)
	Packing Credit	Long Term	INR 8	SMERA BB+ / Stable (Reaffirmed)
	Post Shipment Credit	Long Term	INR 8	SMERA BB+ / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	INR 3.45	SMERA BB+ / Stable (Reaffirmed)
20-Feb-2015	Packing Credit	Long Term	INR 8	SMERA BB+ / Stable (Upgraded)
	Post Shipment Credit	Long Term	INR 8	SMERA BB+ / Stable (Upgraded)
	Bank Guarantee	Short Term	INR 0.75	SMERA A4+ (Assigned)

	Proposed Packing Credit	Long Term	INR 3.45	SMERA BB+ / Stable (Upgraded)
26-Mar-2014	Packing Credit	Long Term	INR 8	SMERA BB- / Stable (Reaffirmed)
	Post Shipment Credit	Long Term	INR 8	SMERA BB- / Stable (Reaffirmed)
	Proposed Post Shipment Credit	Long Term	INR 4.2	SMERA BB- / Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BB+ / Stable (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BB+ / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+ (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs. 3.20 crore)	SMERA BB+ / Stable (Reaffirmed)

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ABOUT SMERA

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