

VARDHMAN JEWELLERS

26 February, 2018

Rating Assigned



Total Bank Facilities Rated	Rs. 6.00 crore
Long Term Rating	SMERA B+/ Stable (Assigned)

Rating Rationale

SMERA has assigned a long term rating of '**SMERA B+**' (read as **SMERA B plus**) to the above mentioned bank facilities of Rs.6.00 crore of Vardhman Jewellers. The outlook is '**Stable**'.

Established in Feb 2011, Vardhman Jewellers (VJ) is a Coimbatore, Tamil Nadu based proprietorship concern engaged in bullion trading, retail & wholesale trading of gold jewelry. VJ is managed by proprietor Mr. Kamal Siyal and has own retail outlet in Coimbatore. The entity procure its raw material (old gold) from local suppliers in Coimbatore as well as from reputed NBFCs such as Muthoot Fincorp, Manapuram Gold etc. VJ's customer profile includes retail outlets in Coimbatore district.

List of key rating drivers and their detailed description:

Strengths

Experienced management:

Vardhman Jewellers, proprietorship concern was incorporated in 2011. The entity is managed by proprietor Mr. Kamal Siyal. The proprietor has experience of more than seven years in the industry and is well supported by father Mr. SP Mahavir who has an exposure of more than four decades in the industry.

Healthy scale of operations:

The scale of operations of the company are at healthy levels with operating income of around Rs. 365.91 crores in FY'2017 as compared to Rs. 461.80 crores in FY'2016. The dip in turnover in FY'2017 has been mainly on account of demonetization in November 2016. During the current year the firm has achieved revenue of Rs 226 crs till January'18 (Provisional).

Prudent working capital cycle:

VJ's has efficient working capital cycle on account of realization from bullion trading on the same day. The prudent working capital cycle is marked by Gross Current days (GCA) of 6 in FY 17 as compare to 21 days in FY 16. The low GCA are on account of 2 days of inventory and 2 days of debtor in FY 17 as compare to 19 days of inventory and 1 day of debtor in FY 16. The firm does not hold inventory/ debtor as the firm is engaged in bullion trading where settlement is made on the same day.

Diversified revenue profile:

VJ's revenue profile is majorly supported by bullion trading contributing to 60% of the turnover and 30% revenue originating from business with NBFC's (where old gold jewelry are purchased according to purity and sold as bullion) , retail and wholesale contributing the rest 10% of the turnover.

Weaknesses

Average Financial Risk Profile:

The financial risk profile is moderate marked by net worth of Rs. 2.03 crore as on 31 March, 2017 against Rs.1.93 crore as on March 31st 2016. The gearing (debt-to-equity ratio) has improved though it stands high and stood at 2.85 times as on 31 March, 2017 compared to 3.31 times in the previous year. The total debt of Rs. 5.79 crore, consists of working capital borrowings of Rs. 5.24 crore and term loan of 0.55 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 1.39 times in FY2017. In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.03 times in FY2017.

Thin Profitability:

VJ's Operating margins has declined and stood at 0.17% in FY 2017 compared to 0.27% in FY 2015. Further profit after tax margin stood at 0.04% in FY 2017 compared to 0.02% in FY 2016. The low profitability is due to trading nature of business.

Geographic concentration risk and intense competition:

The entity is exposed to significant geographic concentration risk as its store is located in Coimbatore, Tamil Nadu. The industry is highly fragmented and large number of unorganized players would lead to high level of competition putting pressure on margins.

Applicable Criteria

- Trading entities- <https://www.smera.in/criteria-trading.htm>
- Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that Vardhman Jewellers will remain 'Stable' and the firm will be able to maintain its credit profile over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the entity receives higher than expected revenues and profit margins. The outlook may be revised to 'Negative' in case significant decline in firms revenue and profitability or in case of higher than expected debt funded working capital requirement leading to strain on its debt servicing ability.

About the Rated Entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
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Operating Income	Rs. Cr.	365.91	461.79	118.92
EBITDA	Rs. Cr.	0.64	1.24	0.72
PAT	Rs. Cr.	0.14	0.09	0.11
EBITDA Margin	(%)	0.17	0.27	0.61
PAT Margin	(%)	0.04	0.02	0.09
ROCE	(%)	8.12	16.29	20.88
Total Debt/Tangible Net Worth	Times	2.85	3.34	2.52
PBDIT/Interest	Times	1.39	1.10	1.23
Total Debt/PBDIT	Times	8.55	5.23	6.66
Gross Current Assets (Days)	Days	6	21	19

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for the last three years:

Name of Facilities	2018				2017		2016		2015	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Metal Loan	LT	21-02-2018	Rs 6.00	SMERA B+/Stable	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Metal Loan	15-12-2015	-	-	6.00 Cr	SMERA B+/ Stable

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

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