



SMERA RATINGS LIMITED

Shree Mukt Jewellers Baroda Private Limited (SMJBPL)

*Rating
Rationale*

May 09, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	31.00	SMERA BB+/Stable (Assigned)
Cash Credit	70.00	SMERA BB+/Stable (Assigned)
Letter of Credit	100.00	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB+**' (read as **SMERA double B plus**) and '**SMERA A4+**' (read as **SMERA A four plus**) to abovementioned bank facilities of Shree Mukt Jewellers Baroda Private Limited (SMJBPL). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations, experienced management and strong revenue growth. The ratings are also supported by the improvement in the company's financial risk profile. The ratings draw comfort from the strategic location of the company's showrooms. However, the ratings are constrained by the company's working capital-intensive operations in an intensely competitive segment of the precious jewellery industry. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in prices of gold and silver. The ratings factor in the company's exposure to unfavourable changes in government policy on gold imports.

SMJBPL is a Baroda-based company engaged in retailing gold jewellery, silver ornaments and diamond studded jewellery since 1975. SMJBPL benefits from its experienced management. Mr. Harsh Soni, director of SMJBPL, has around four decades of experience in the gold jewellery industry. The company's revenues have grown at a strong compound annual growth rate (CAGR) of 53 per cent over the last five years.

SMJBPL's leverage (debt-to-equity ratio) improved from 2.26 times as on March 31, 2013 to 1.57 times (provisional) as on March 31, 2014. The company has healthy interest coverage ratio of 3.61 times (provisional) in FY2013-14 (refers to financial year, April 01 to March 31). SMJBPL's showrooms are located in Alkapuri, a prime area in Baroda, Gujarat.

SMJBPL's operations are working capital-intensive. The company's average gross current assets (in days) are high at 134 days during the last five years. SMJBPL faces intense competition from large retailers selling branded gold jewellery. The company also competes with several small players in the unorganized segment of the precious jewellery industry. SMJBPL's profit margins are susceptible to volatility in prices of gold and silver. Moreover, the company's business is exposed to adverse changes in gold import policy framed by the government.

Outlook: Stable

SMERA believes SMJBPL will maintain a stable business risk profile in the medium term. The company is likely to benefit from its established operations and experienced management. The

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outlook may be revised to 'Positive' in case the company registers sustained improvement in profit margins while maintaining healthy revenue growth and achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the company's financial profile.

About the company

SMJBPL was established as a proprietorship firm (named Shree Mukt Jewellers) in 1975 and converted to a private limited company in 2013. SMJBPL is engaged in retailing gold jewellery, silver ornaments and diamond studded jewellery. The company has a showroom (spread over 8,000 square feet area) in Alkapuri, Baroda (Gujarat). Further, SMJBPL has recently set up another showroom (spread over 70,000 square feet area) in Alkapuri, Baroda. The overall operations of the company are managed by Mr. Haresh Soni.

For FY2013-14 (as per provisional financial statements), SMJBPL reported profit after tax of Rs.15.70 crore on revenues of Rs.403.32 crore, as compared with profit after tax of Rs.2.47 crore on revenues of Rs.171.63 crore in the previous year. The company's net worth stood at Rs.55.78 crore as on March 31, 2014, as compared with Rs.29.87 crore a year earlier.

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