

December 01, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	12.00	SMERA BB/Stable (Assigned)
Term Loan	1.41	SMERA BB/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB** (read as SMERA double B) to the Rs.13.41 crore bank facilities of Suwarnsparsh Gems & Jewellery Private Limited (SGJPL). The outlook is '**Stable**'.

The rating derives comfort from the company's established geographical presence all over Maharashtra and experienced management. The rating also derives comfort from the company's robust revenue growth, stable operating profit margin and above-average financial risk profile. However, the ratings are constrained by SGJPL's working capital intensive nature of operations and exposure to intense competition from organised and unorganised players in the gems and jewellery industry.

Established in 2009, SGJPL is a Mumbai-based company engaged in retailing of gemstones, one gram jewellery and artificial jewellery.

SGJPL benefits from its experienced management. Mr. Vimal Patel (Managing Director) and Mrs. Kinnari Patel (Director) of the company, have around two decades of experience in the gems and jewellery industry. SGJPL has an established geographical presence with 57 rented showrooms present all over Maharashtra, India along with two offices internationally present in Bangkok and Sri – Lanka.

Further, SGJPL proposes to open additional 25 showrooms in FY16-17 in major cities including Kolkata, Hyderabad, Delhi, Bangalore, Chennai, Ahmedabad, Jaipur and Chandigarh

SGJPL's revenues have grown at a strong compound annual growth rate (CAGR) of 45 per cent over the last four years ended FY2014-15. For FY2014-15, SGJPL reported operating income of Rs.60.80 crore, as compared with operating income of Rs.49.14 crore in the previous year. The company's operating profit margin has remained stable in the range of 6- 8 per cent over the past three years. Going forward, the company's operating profit margin is expected to improve moderately, backed by opening of additional showrooms in FY 16-17.

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SGJPL's above-average financial risk profile is marked by net worth of Rs. 12.59 crore as on March 31, 2015, as compared with Rs.7.13 crore a year earlier. The company has subordinated unsecured loans of Rs. 2.94 crore (as on March 31, 2015) from promoters and related parties. SMERA has treated such unsecured loans as quasi-equity. SGJPL's leverage (debt-to-equity ratio) stood at 1.00 times as on March 31, 2015. The company has a healthy interest coverage ratio of 3.34 times and healthy return on capital employed of 18.87 per cent in FY2014-15.

SGJPL has working capital intensive operations marked by fully utilized bank limits for one year ended September 2015. SGJPL's working capital management is stretched with working capital cycle of around 94 days as on March 31, 2015 from 76 days as on March 31, 2014 mainly due to high inventory levels maintained of around 183-215 days in the past three years ended FY2015. SMERA expects the working capital cycle to be maintained around 90-100 days over the medium term. With improvement in working capital cycle and fund support from promoters, the company's total outside liabilities to tangible net worth (TOL/TNW) stood at 1.92 times as on March 31, 2015. The company's financial risk profile is likely to remain above-average, backed by moderate accretions and fund infusions by way of unsecured loans.

SGJPL's business is exposed to intense competition from organised and unorganised players in the gems and jewellery industry. The company also faces competition from gold and diamond jewellery players in the industry.

Outlook: Stable

SMERA believes SGJPL will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management and established geographical presence. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Company

The Mumbai-based SGJPL, incorporated in 2009 by Mr. Vimal Patel and Mr. Subhash Shinde. The day-to-day operations are managed by Mr. Vimal Patel and Mr. Kinnari Patel. SGJPL is engaged in retailing of Gemstones, One Gram Jewellery and Artificial Jewellery.

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The company has 57 retail outlets in the State of Maharashtra. SGJPL has recently set up a manufacturing unit in Vasai (Palghar, Maharashtra) for manufacturing one gram jewellery (24 gram gold plated) and artificial jewellery. The company has offices in Opera House (Mumbai), Bangkok and Sri Lanka.

For FY2014–15, SGJPL reported profit after tax (PAT) of Rs.1.70crore on operating income of Rs.60.80 crore, as compared with PAT of Rs.1.39 crore on operating income of Rs.49.14 crore in the previous year.

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