

September 15, 2022

Bholasons Jewellers: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based	85.00	85.00	[ICRA]BBB-(Stable); reaffirmed
Total	85.00	85.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the established brand name of Bholasons Jewellers (Bholasons) in the Delhi/NCR¹ market and the extensive experience of its partners in the jewellery retail business. The vast experience of the partners and continuous focus on new design improvement enabled the firm to establish a strong market presence and capture a loyal customer base in its addressable markets. ICRA notes the strategic location of its showrooms in the Gold Souk Mall (Gurgaon), which generates adequate footfalls. The rating also factors in the increase in Bholasons' revenues in FY2022, led by better demand from both domestic and export markets. The rating further draws comfort from the firm's stable financial profile, aided by comfortable capitalisation and debt coverage indicators, along with an adequate liquidity position. However, the operating margin moderated to around 4.66% in FY2022 from 6.75% in FY2021. Consequently, the interest coverage indicators also moderated to 2.67 times in FY2022 from 2.93 times in FY2021. In FY2023, the revenues are expected to report a growth of around 10-15%.

The rating, however, is constrained by Bholasons' relatively modest scale of operations, albeit recording a healthy growth in FY2022, and large inventory holding requirements. Sizeable inventory levels expose the firm to inventory price risk owing to volatility in gold prices. However, access to gold metal loans, which constitute 40-50% of its procurement, provide an effective hedge. The firm remains exposed to geographical concentration risks with the major part of its revenues derived from the Gurgaon outlets. ICRA also notes the intense competition in the gold retailing segment from many organised manufacturers, limiting its pricing ability and constraining margin improvement. Moreover, ICRA considers the inherent regulatory risks in the industry, along with the challenges faced by the partnership firms in the form of limited disclosure, capital continuity/withdrawal risks among others.

The Stable outlook on the long-term rating reflects ICRA's opinion that Bholasons will continue to benefit from its adequate liquidity position, established brand name in the Delhi/NCR market and extensive experience of its partners.

Key rating drivers and their description

Credit strengths

Strategically located showrooms attract footfalls – The firm operates from its two showrooms in Gurgaon and one export office in Karol Bagh, which aid in generating footfalls. The strategic location of the Gold Souk Mall in Gurgaon generates healthy revenues and accounted for ~70% of its top line in FY2022.

Extensive experience of promoters in jewellery retail business – The firm, led by Dr. Rajendra Bhola, has been in existence since 2004 and currently operates two stores and one export office in Delhi and Gurgaon. It benefits from the extensive

¹ National Capital Region

experience of the partners in the jewellery retail industry and established presence of the Bholasons brand in the Delhi/NCR jewellery retail market.

Established market presence –The firm enjoys a strong brand recall in the region it operates owing to its established track record of operations, aiding in sustained footfalls and revenues. The promoters have extensive experience in the jewellery retail business for more than six decades, which helped in developing established relationships with domestic and overseas customers.

Credit challenges

Working capital intensive nature of business and moderate financial profile – The jewellery retailing business is inherently working capital intensive in nature because of the optimal inventory required to be maintained across the stores, given the need to display varied designs of jewellery to customers. The firm's stock levels remained in the range of Rs. 160-Rs. 190 crore and stood at Rs. 194 crore as of June 2022. Its ability to improve stock rotation and working capital cycle will be a critical credit monitorable. Moreover, the financial profile is moderate with an interest coverage of 2.67 times in FY2022 and scale of Rs. 255 crore in FY2022.

High geographical concentration risk and stiff competition – The firm has two stores and one export office in the Delhi/NCR region, although the Gold Souk Mall store contributes a significant share to its revenues. Hence, Bholasons faces stiff competition from many other players within the mall location. The gold jewellery retail business witnesses intense competition, given the presence of many organised and unorganised players, leading to limited pricing flexibility among players. Nevertheless, its established brand presence in the Delhi/NCR region and strong customer base mitigate the risk.

Exposure to regulatory risks – Increased regulatory intervention in the jewellery industry, over the recent years, impacted the demand-supply scenario. Measures like 20/80 restriction on imports, mandatory disclosure requirement for purchases above the threshold limit, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty, demonetisation, etc, affected demand and supply in the past. Increasing supervision and a cautious lending environment further restricted fund flows to the sector, hampering store expansion plans and liquidity profile of retailers.

Inherent risks in partnership nature of business, continuous withdrawals have restricted build-up of capital – The firm remains exposed to the challenges inherent to partnership businesses, such as capital withdrawals by partners. The cumulative withdrawals amounted to Rs. 18.2 crore over the past four-year period.

Liquidity position: Adequate

The firm's liquidity position is **adequate** with positive fund flow from operations in FY2022, average working capital utilisation of ~89% of the sanctioned limits for the 11-month period that ended in July 2022 and minimal repayment obligations.

Rating sensitivities

Positive factors –ICRA could upgrade Bholasons's rating if the firm demonstrates a sustained improvement in revenues and profitability, going forward. Efficient management of working capital, resulting in improved liquidity position, could be a positive rating trigger. In terms of specific credit metrics, interest coverage higher than 3.5 times on a sustained basis could lead to a positive rating action.

Negative factors – Pressure on the rating could arise if there is a material decline in its scale of operations and profitability, resulting in lower cash accruals. In addition, significant capital withdrawals impacting the firm's liquidity position, or a decline in the interest coverage below 2.5 times, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery-Retail Industry
Parent/Group Support	None
Consolidation/Standalone	Standalone

About the company

Bholasons Jewellers was set up in 2004 as a partnership firm by Dr. Rajendra Bhola and is involved in retailing of gold and diamond-studded jewellery for the domestic and export markets. It is a family-owned business, run by three partners — Dr. Rajendra Bhola, his wife (Mrs. Sangeeta Bhola) and son (Mr. Abhinav Bhola)—who are actively involved in the day-to-day operations of the business.

Key financial indicators

Bholasons	FY2021(A)	FY2022(P)
Operating Income (Rs. crore)	141.1	254.8
PAT (Rs. crore)	5.77	6.72
OPBDIT/OI (%)	6.75%	4.66%
PAT/OI (%)	4.09%	2.64%
Total Outside Liabilities/Tangible Net Worth (times)	1.09	1.68
Total Debt/OPBDIT (times)	5.70	7.65
Interest Coverage (times)	2.93	2.67

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited; P-Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
					September 15,2022	October 07,2021	November 04,2020	September 22,2020	September 12,2019	September 02,2019
1	Cash Credit	Long term	85	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2	Unallocated	Long term	-	-	-	-	[ICRA]BBB-(Stable)#	[ICRA]BBB-(Stable)	-	-
	Issuer Rating	Long term	-	-		-	[ICRA]BBB-(Stable)#	[ICRA]BBB-(Stable)^	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

^ reaffirmed and put on notice of withdrawal for one month; # reaffirmed and withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
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Fund based-Cash credit	Simple
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The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based-long term	-	-	-	85	[ICRA]BBB-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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Branches



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