

October 15, 2020

Navrathan Jewellers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/CC	75.00	75.00	[ICRA]BBB- (Stable); reaffirmed
Long Term – Unallocated	10.00	10.00	[ICRA]BBB- (Stable); reaffirmed
Total	85.00	85.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to derive comfort from the extensive experience of Navrathan Jewellers Private Limited's (NJPL) promoters in the gems and jewellery industry, its established brand name and customer base in the Bengaluru market. Further, the ratings consider the company's conservative capital structure and nominal fixed repayment obligation, which render financial flexibility to some extent.

However, the rating is constrained by the expected moderation in the company's revenues in FY2021 due to the impact of the Covid-19 pandemic on operations and jewellery demand, which is discretionary in nature. The rating is also constrained by the vulnerability of the operating margins to fluctuations in gold prices in the absence of any formal hedging mechanism. Nonetheless, ICRA expects the company's gross margins to improve in FY2021 on account of increasing prices. The rating is further constrained by the company's limited geographical presence with retail operations restricted to Bengaluru, and the intense competition from larger regional/pan-India players, which limits NJPL's pricing flexibility. ICRA also notes high utilisation of working capital facilities, resulting in limited buffer to meet contingencies.

The Stable outlook reflects ICRA's expectation that NJPL will continue to benefit from its established brand name in the Bengaluru market and the extensive experience of its promoters in the industry and their financial commitment towards the company. The company's performance would remain sensitive to the duration and breadth of the pandemic before an eventual containment.

Key rating drivers and their description

Credit strengths

Established presence in Bengaluru – NJPL started with its first showroom on M.G. Road in 1993. It has four stores in Bengaluru and enjoys a strong brand name in the retail jewellery market of the city. Further, marketing initiatives and the brand drive footfalls for the company.

Conservative capital structure and nominal fixed repayment obligation – NJPL's capital structure remains conservative, as characterised by a gearing (total debt/tangible net worth) of 0.46 times as on March 31, 2020. The TOL/TNW stood low at 0.82 times in FY2020. The repayment obligations remain low as the term debt includes only vehicle loans of Rs. 0.84 crore as on March 31, 2020. Its conservative gearing and low long-term debt obligation provide financial flexibility to some extent.

Extensive experience of promoters in the jewellery industry and financial support provided by them – Mr. M. Goutham Chand has more than six decades of experience in the jewellery sector. He founded NJPL in 1993. Further, the promoters have extended unsecured loans over the years for partly funding the company's working capital requirements.

Credit challenges

Pandemic-induced lockdown and subdued demand sentiments to impact sales volumes in FY2021 – NJPL's revenues declined by 27% in FY2020 owing to a decline in its bullion trading operations on the back of the company's increased focus on retailing. Further, given the low discretionary spending by consumers due to a sharp increase in gold prices, weak macroeconomic sentiments, loss of business in April 2020 due to the complete lockdown and rather uncertain economic situation due to the still evolving pandemic, NJPL's revenues are likely to witness further moderation in FY2021. In line with the industry, the company's revenues plunged by 53% YoY in 5M FY2021. Nevertheless, an increase in gold prices is likely to offset a sharp decline in its sales volume and is likely to limit the revenue decline to some extent.

Exposure of profitability to fluctuation in gold prices – The retail business is working capital intensive in nature as adequate inventory is required to be maintained across the stores. With limited hedging mechanism, the earnings remain exposed to volatility in gold prices. It hedges the price volatility risk, to an extent, through its back-to-back transactions, by purchasing similar quantity as the previous day's sales. However, the risk on inventory remains.

Limited geographical presence and significant competition – Gold jewellery retailing is competitive amid the presence of large organised and unorganised players. Further, NJPL's limited geographical presence with retail operations restricted to Bengaluru, limits its scale of operations and pricing flexibility. Additionally, the limited value addition restricts the operating margins of the players.

Exposed to the regulatory risk – The jewellery industry has witnessed increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like limited access to gold metal loan, mandatory PAN card disclosure requirement for purchases, limitation on jewellery saving schemes, demonetisation etc, had its effect on both demand and supply. Increasing supervision and cautious lending environment restrict fund flows in the sector.

Liquidity position: Stretched

NJPL's liquidity position is **stretched**, as characterised by availability of limited buffer in its working capital facilities with an average utilisation of 97.4% of the sanctioned limits for the period March 2019 to August 2020. Besides, an increase in investments in its Group entity – Sri Krishna Diamonds & Jewellery – which stood at Rs. 40.12 crore as on March 31, 2020 compared to Rs. 25.02 crore as on March 31, 2019, exerts pressure on the company's liquidity. Nonetheless, the stated intent of the promoters to maintain the investments in the Group entity at the existing levels and the likely absence of any incremental investments provide comfort to some extent. Further, the proposed enhancement in the working capital facilities is expected to ease the liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade NJPL's rating if the company demonstrates healthy accruals and improves its liquidity position while maintaining its capital structure.

Negative triggers – Pressure on NJPL's rating could arise in case of any sharp deterioration in the company's revenues and profitability, leading to stretched debt protection metrics and/or any stretch in the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery - Retail Industry
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial profile of the firm

About the company

Promoted by Mr. M. Goutham Chand and his family, NJPL, incorporated in 1993, is involved in trading of bullion and retailing of gold, diamond, silver, platinum jewellery and gems. It also deals in antique jewellery and gold and silver wares/idols. NJPL operates out of its four stores in Bengaluru and one store in Delhi. NJPL has considerable investments in its Group entity, Sri Krishna Diamonds and Jewellery (SKDJ), a partnership firm with NJPL (5% profit sharing), Mr. M. Gowtham Chand (45%), Mr. Nirmal Kumar (5%) and Mr. P. Sajan Rao (45%) as its partners. SKDJ is involved in jewellery retailing and has one store located in Commercial Street, Bengaluru.

Key financial indicators

	FY2018	FY2019	FY2020 Prov.*
Operating Income (Rs. crore)	1,524.87	1,099.77	798.94
PAT (Rs. crore)	8.77	18.25	31.36
OPBDIT/OI (%)	1.39%	3.61%	6.63%
PAT/OI (%)	0.57%	1.66%	3.93%
Total Outside Liabilities/Tangible Net Worth (times)	0.99	0.83	0.82
Total Debt/OPBDIT (times)	5.16	2.72	2.06
Interest Coverage (times)	2.15	3.15	4.10

*Prov. - Provisional financials

Status of non-cooperation with previous CRA: NJPL had rating of CRISIL BB+/Stable (Issuer Not Cooperating) and the same was withdrawn in June 2019.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on March 31, 2020	Rating	FY2020	FY2019	FY2018
					15-Oct-2020	17-Apr-2019	-	-
1	Cash credit	Long Term	20.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2	Working Capital Demand Loan (WC DL)	Long Term	55.00	55.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
3	Unallocated	Long Term	10.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Cash Credit	NA	NA	NA	20.00	[ICRA]BBB- (Stable)
NA	WCDL	NA	NA	NA	55.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	10.00	[ICRA]BBB- (Stable)

Source: Navrathan Jewellers Private Limited

Analyst Contacts

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Rathina Pradeep R
+91 44 4297 4307
rathina.r@icraindia.com

Vinodhini M
+91 44 4297 4313
vinodhini.m@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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