

January 20, 2017

## Gallant Jewelry

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	14.76 (enhanced from 10.0)	Reaffirmed at [ICRA]A4
<b>Total</b>	<b>14.76</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed its rating on the Rs 14.76-crore (enhanced from Rs 10.0 crore)<sup>1</sup> bank facilities of Gallant Jewelry at [ICRA]A4 (pronounced ICRA A four)<sup>2</sup>.

### Rationale

The reaffirmation of the rating takes into consideration the longstanding experience of the partners in the gems and jewellery business and the increase in the firm's revenues led by continuous orders from regular and new clients. Furthermore, the firm's capital structure remains comfortable owing to the limited external debt, resulting in healthy coverage indicators. The rating, however, continues to remain constrained by the high working capital intensity, stretched liquidity position, client concentration and raw material price risks. The ability of the firm to improve its liquidity position and achieve revenue growth against a backdrop of diversified customer base will be the key rating sensitivity.

### Key Rating Drivers

#### Credit Strengths

- Long standing experience of the partners in the gems and jewellery business
- Continuous orders from regular customers
- Comfortable capital structure with minimal external loans; healthy coverage indicators

#### Credit Weaknesses

- High working capital intensity due to high receivable period (6-7 months for its major customers), though it is in line with peers
- Continuous decline in operating profitability over the years
- High industry competition from players in the unorganised as well as organised sectors
- Exposure to customer concentration risks (top two customers contributed 58% of the revenues in FY2016); however, the firm has been able to generate repeat orders from the existing clients
- Susceptibility of margins to raw material price risks
- Exposure to currency fluctuation risks; however, the firm hedges 60% of its sales
- Risks, such as capital withdrawal, associated with partnership firms

### Description of key rating drivers highlighted above:

The long experience of the promoters in the gems and jewellery business helps the firm to establish strong relationships with existing clients. This helps the firm to get repeat orders as top two clients form 58% of total sales. However, this limits the bargaining power of the firm as evident from low profitability and also high receivables period. High competitive pressures have resulted in continuous decline in profitability indicators over the years. Operating profitability decreased from 36% in FY2012 to 7% in FY2016. Relatively stretched working capital cycle of the firm marked by a high receivable period (Debtors days of 194 in FY2016 and

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other rating publications

NWC/OI<sup>3</sup> of 41.5%) as the firm provides extended credit period to its major clients. There has been a slight moderation in the debtor days; however, they continue to remain high. Consequently, the firm's working capital limits remain highly utilised, resulting in pressure on its liquidity position. The profitability margins are susceptible to raw material price risks and competitive pressures as witnessed in the continuous decline in operating profitability margins and the firm's exposure to exchange fluctuation risks. Further, partnership nature of the firm exposes it to risk of dissolution, withdrawal of capital etc. The firm receives various fiscal incentives by virtue of its presence in the Special Economic Zone. Being an exporter, the firm is exposed to foreign currency fluctuation risks; however, 60% of its sales are hedged through forward contracts.

**Analytical approach:**

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

**About the Company:**

Incorporated in 2001, Gallant Jewelry is a partnership firm based in Jaipur, Rajasthan. It manufactures and exports silver and gold-based studded jewellery. In 2006, the firm shifted its manufacturing base to a special economic zone in Sitapura Industrial Area of Jaipur. The firm currently has an annual manufacturing capacity of 2000 kg of silver jewellery, 150 kg gold jewellery and 400 kg brass jewellery. The exports are primarily to the USA, Germany, the UK, Italy and Hong Kong.

In FY2016, the company reported an operating income (OI) of Rs. 65.64 crore and a profit after tax (PAT) of Rs. 1.54 crore, as compared to an OI of Rs. 61.23 crore and a PAT of Rs. 3.08 crore in FY2015.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
					January 2017	December 2015	January 2015	September 2013
2	Fund-Based Limits	Short Term	14.76	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+	

**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](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Non Fund Based Limits	-	-	-	14.76	[ICRA]A4

**Source: Gallant Jewelry**

**Name and Contact Details of the Rating Analyst(s):**
**Analyst Contacts**

**Sabyasachi Majumdar**

+0124-4545 304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Sheetal Sharad**

+0124-4545 374

[sheetal.sharad@icraindia.com](mailto:sheetal.sharad@icraindia.com)

**Manish Ballabh**

+0124-4545 812

[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Shiffali Garg**

+0124- 4545 868

[shiffali.garg@icraindia.com](mailto:shiffali.garg@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500