May 30, 2017

Bhima Jewellers

Summary of Rated Instruments

Instrument	Amount (Rs. crore[1])	Rating action
Long-term – fund-based: Cash Credit	271.00	[ICRA]BBB (Stable); assigned
Long-term – fund-based: Term Loan	9.00	[ICRA]BBB (Stable); assigned
Total	**280.00**	

**Instrument Details are provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced as ICRA triple B)[2] to the Rs. 271.00-crore working capital and Rs. 9.00-crore term-loan facilities of Bhima Jewellers. The outlook on the long-term rating is stable.

Rationale

The assigned rating positively takes into account the long experience of the promoters in the jewellery business and the established position of the brand 'Bhima' in the South Indian market with presence of over nine decades. The rating derives comfort from the firm's competitive position in the Bangalore market with retail showrooms in prime locations of the city and healthy operating margins. ICRA notes the demand outlook for gold jewellery in India remains favourable over the medium to long term, underpinned by the strong cultural affinity for gold and growing disposable income.

However, the rating is constrained by the relatively stretched working capital cycle marked by high inventory levels maintained by the firm, impacting its liquidity position, and exposing its profitability to adverse movement in gold prices in the absence of any formal hedging mechanism. The capital structure of the firm remained leveraged with a gearing of 1.90 times and TOL/TNW[3] of 2.99 times as on March 31, 2017, and the high interest costs have resulted in suppressed coverage indicators. ICRA also notes that the intense competition in the industry, characterised by the presence of a large number of organised and unorganised players, keeps margins under check. Further, the rating also factor in the firm's exposure to geographical concentration risk as its major operations are concentrated in Karnataka.

Going forward, the firm's ability to ramp up its scale of operations, improve its capital structure, maintain its profitability and reduce its inventory turnover will be the key rating sensitivities.

Key rating drivers

Credit strengths

- Long experience of the promoters with strong presence in the Karnataka market; multiple stores across the city in prime locations
- Established presence and widening geographical reach of the brand
- Favourable long-term demand outlook for gold and diamond jewellery

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[1] 100 lakhs = 1 crore = 10 millions
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[3] TOL: Total Outside Liabilities, TNW: Total Net Worth

Credit weaknesses

- Moderate financial profile as reflected by high gearing levels and moderate coverage indicators
- Exposure of profitability to fluctuation in gold prices, given the high inventory level required to support operations
- High working capital intensity of operations, thereby impacting liquidity
- Significant competition limits pricing flexibility and margin expansion to an extent
- Significant debt-funded capital expenditure planned towards expansion of stores might exert pressure on the capital structure

Description of key rating drivers highlighted above:

Bhima Jewellers is involved in the retailing of gold, silver, diamond and platinum ornaments and articles, with around 90% of its revenues being generated through sale of gold ornaments and articles. The 'Bhima' brand has an established presence in the South Indian jewellery market with the group's presence for over nine decades. The firm started off with the first showroom in 1999 in Bangalore and has diversified its presence across Karnataka with over seven showrooms in Bangalore and one each in Hassan, Mangalore and Udupi. The latest store opened in January 2017 in Marathahalli has contributed to ~4% of the revenues in FY2017. The revenues of the firm are fairly diversified across the stores with the top-three showrooms contributing to 49% of the total revenues in FY2017. Going forward, the firm plans to shift its Koramangala showroom to its own premises and has budgeted a capital expenditure of Rs. 40.00 crore for the same, which is to be funded by Rs. 30.00 crore debt. The firm has already incurred Rs. 15.00 crore in FY2017 and the rest would be incurred in FY2018 and FY2019. While the firm would benefit from savings on the existing rental cost, the debt-funded nature of capital expenditure is likely to exert pressure on the capital structure in the short term. However, the firm has planned substantial capital infusion over the next 2-3 years, to keep the capital structure under check. The firm also plans to open an additional store over the next 1-2 years to increase its geographical diversification.

While the firm primarily trades in finished ornaments, it has increased the share of jewellery manufactured (through job-workers) over the years. At present, about 60% of the procurement is in the form of finished ornaments and the firm plans to further reduce the share to 50% in the coming year. The firm faces stiff competition from large regional and pan-India jewellery retailers, which limits the pricing flexibility and margins to an extent. The inventory levels have remained high owing to the merchandising requirements across several showrooms. Addition of the new showroom led to further increase in the inventory levels in FY2017. Due to this, the working capital intensity of the firm, as reflected by NWC/OI (Net Working Capital Intensity/Operating Income), remained high at 34% in FY2017. The risk arising out of volatility in gold prices is hedged by the firm, to an extent through back-to-back transactions as the firm replaces its current day's sales by purchasing similar quantity on the next day. As a result, the firm carries the entire risk in its inventory. However, the firm plans to avail gold metal loans going forward, which would not only aid in hedging the price volatility risk, but also reduce the interest cost.

Analytical approach
To arrive at the ratings, ICRA has performed a detailed evaluation of the issuer's business and financial risks.

Links to applicable Criteria
[Corporate Credit Rating –A Note on Methodology]
[Gold Jewellery Retail Industry]

About the company:
Bhima Jewellers, operating since 1999, is a part of the Bhima Group which was started by Mr. Bhima Bhatter in Alleppey, Kerela in 1925. Bhima Jewellers, promoted by Mr. Krishnan Bhatter, son of Mr. Bhima Bhatter, runs ten stores across Karnataka, including seven retail showrooms in Bangalore and one each in Mangalore, Udupi and Hassan. Apart from this, the firm also runs one exclusive silver showroom in Bangalore. Approximately 90% of Bhima Jeweller's revenues are generated through sale of gold jewellery and the balance through sale of diamonds, silver and precious stones. The firm sources 60% of jewellery in the form of finished ornaments from manufactures and dealers in Karnataka.

As per provisional results for FY2017, the firm reported a net profit of Rs. 19.22 crore on an operating income of Rs. 1,041.70 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				May 2017	-	-	-
1	Cash Credit	Long Term	271.00	[ICRA]BBB (Stable)	-	-	-
2	Term Loan	Long Term	9.00	[ICRA]BBB (Stable)	-	-	-

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

Name of the instrument	Date of issuance/sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	271.00	[ICRA]BBB (Stable)
Term Loan	November, 2015	-	January, 2020	9.00	[ICRA]BBB (Stable)

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
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