

Suvarna Lakshmi Jewellers

January 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	18.00	18.00	[ICRA]B+(Stable);Reaffirmed
Term loan	0.58	0.00	-
Unallocated limits	8.62	9.20	[ICRA]B+(Stable); Reaffirmed
Total	27.20	27.20	

* Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+(pronounced ICRA B plus) to the Rs. 18.00 crore¹ cash credit limits and Rs. 9.20 crore unallocated bank facilities of Suvarna Lakshmi Jewellers (SLJ or the firm)². The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation continues to be constrained by SLJ's weak financial risk profile characterised by interest coverage ratio of 1.15 times and high gearing of 3.93 times as on March 31, 2017; high working capital intensive nature of the business, as reflected by high utilisation of working capital limits, owing to high inventory levels maintained to provide variety to customers; and geographical concentration risk inherent to a single-retail outlet business. The rating also factors in small scale of operations in the intensely competitive gems-and-jewellery retail industry; and risks arising from partnership nature of the firm such as capital withdrawal as observed in FY2017. The rating, however, positively factors in the long experience of the promoters in the jewellery retail business and loyal customer base associated with Tanishq brand; and favourable long-term outlook of the jewellery industry supported by the cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and the growing penetration of organised sector.

Outlook: Stable

ICRA believes Suvarna Lakshmi Jewellers will continue to benefit under brand name of Tanishq and the extensive experience of its partners. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Long of experience of promoters in the retail industry and strong loyal customer base for brand Tanishq - Founded in 2009 for the purpose of branded jewellery retail, SLJ is a level-3 dealer of one of the India's leading gold Jewellery brand - Tanishq. Established relationship with the principal Titan Company Limited and the track record of the management in branded retail helps in achieving loyal customer base.

Favourable long-term outlook of the jewellery industry- The long-term outlook of the jewellery industry is favourable supported by the cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and the growing penetration of organised sector.

Credit challenges

Financial profile characterised by leveraged capital structure and weak debt coverage indicators - The total debt of the company mainly consists of working capital borrowings from the bank, standing at Rs. 20.09 crore as on March 31, 2017. SLJ's financial risk profile is weak characterised by interest coverage ratio of 1.15 times in FY2017 and high gearing of 3.93 times as on March 31, 2017.

High working capital intensity resulting from high inventory levels which impacts liquidity - Typically, the inventory holding is high in jewellery retailing business as the dealers must stock adequate varieties to attract customers and also capitalise on customer walk-ins. The firm's ability to ramp up is directly proportional to the inventory holding – additional varieties are critical to converting walk-ins to customers and expand the existing customer base and to be in sync with new designs and trends. The working capital intensity continues to be high at 56.90% in FY2017 which increased from 50.94% in FY2016 owing to increase in inventory days.

Intense competition and high geographical concentration risk- The company faces stiff competition from other unorganised players, thereby putting pressure on revenues and margins. The scale of operations is small with an operating income of Rs. 41.78 crore in FY2017. SLJ operates through single retail outlet resulting in high geographical concentration risk.

Risks associated with constitution as a partnership firm- Given SLJ constitution as a partnership firm, it is exposed to risks including the possibility of withdrawal of capital by the partners as observed in FY2017 where in company had withdrawn Rs. 2.93 crore for repayment of unsecured loans.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Gold jewellery Retail Industry](#)

About the company:

Suvarna Lakshmi Jewellers (SLJ) was founded in 2009 to undertake the business of branded jewellery retail. The company operates as a level-3 dealer of Tanishq's jewellery products. SLJ operates through its own showroom located at Dilsukhnagar, Hyderabad. The firm is promoted and managed by Mr. B Satya Prakash Rao and his family members.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	44.56	41.78
PAT (Rs. crore)	0.44	0.35
OPBDIT/ OI (%)	9.32%	9.28%
RoCE (%)	16.31%	15.05%
Total Debt/ TNW (times)	2.22	3.93
Total Debt/ OPBDIT (times)	4.11	5.18
Interest coverage (times)	1.17	1.15
NWC/ OI (%)	50.94%	56.90%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016 June 2015	Date & Rating in FY2015 June 2014
1 Term Loan	Long Term	0.00	-	-	[ICRA]B+	-	-
2 Cash credit	Long Term	18.00	-	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+
3 Unallocated Limits	Long Term	9.20	-	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	18.00	[ICRA]B+(Stable)
-	Unallocated Limits	-	-	-	9.20	[ICRA]B+(Stable)

Source: SLJ

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