

Mohanlal Jewellers Private Limited

August 07, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based-CC	100.00	[ICRA]BBB (Stable); Assigned
Total	100.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA BBB) to the Rs. 100.00-crore fund-based facilities of Mohanlal Jewellers Private Limited (MJPL)¹. The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably factors in the extensive experience of the promoters, close to three decades, in the wholesale gold jewellery industry. The rating also favourably considers the company's established customer base comprising several renowned jewellery retailers in Tamil Nadu. The company's established presence in Tamil Nadu has helped it in obtaining repeat orders from its customers. Further, the rating factors in the financial support provided by the promoters over the years in the form of unsecured loans. The company has a healthy working capital intensity of ~5% owing to low receivables and inventory outstanding due to the wholesale nature of operations, which also partly mitigates the inventory risk.

However, the ratings are constrained by the company's low profitability due to the wholesale nature of operations and high remuneration to directors. The ratings are also constrained by the vulnerability of operating margins to fluctuations in gold prices. The ratings are further constrained by the company's limited geographical presence with operations primarily restricted to South India. The company's income growth and profitability are vulnerable to the regulatory risk associated with the domestic gold jewellery sector.

Outlook: Stable

ICRA believes that MJPL will continue to benefit from the extensive presence in the wholesale gold industry with the healthy customer base, the experience of promoters and their operational and financial commitment towards the company. The outlook may be revised to Positive if growth in profitability strengthens the financial risk profile. The outlook may be revised to Negative in case of deterioration in profitability metrics or increase in debt levels or worsening of the working capital cycle.

Key rating drivers

Credit strengths

Established presence in the wholesale jewellery industry with healthy customer base: The promoter, who have close to four decades of experience in jewellery wholesale business, established Mohanlal Jewellers as a proprietary concern

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

in CY1990. The company's diversified customer portfolio includes several renowned retailers present across Tamil Nadu with top-ten customers accounting for around 50% of total revenue in FY2018. The established presence and healthy customer base will continue to benefit the company's revenue.

Strong commitment from the promoter: The working capital of the company is partly funded through unsecured loans from promoters and cash credit facility from the banks. The promoters have been flexible to infuse adequate funding into the business on a regular basis. Going forward, the company is expected to continue to benefit from the promoter's financial commitments.

Efficient working capital management: The company maintains low inventory and receivables outstanding primarily due to wholesale nature of operations, which allows it to operate with lower credit period to its customers and also on a cash-and-carry basis to a major segment of its sales. The working capital intensity stood at ~5% as of March 31, 2018.

Credit challenges

Low profitability metrics and vulnerable to volatility in gold prices: The company operates on low operating margins because of the wholesale nature of operations, restricting it with a lower mark up. Further, in the bullion segment, the margins are thin due to the trading nature of operations with very limited value addition. The OPBDITA margins of the company remained low at 0.7% in FY2018. The company's profitability metrics are vulnerable to fluctuation in gold prices as it partly procures gold based on anticipated demand due to its large scale of business.

Exposed to regulatory risk: The jewellery industry has undergone multiple regulatory changes in the past like mandating Permanent Account Number for purchase, increasing the excise duty, introducing the demonisation drive and implementing the GST, which impacted demand and supply dynamics of the industry. Further, concerns over gold imports increased regulatory intervention and impacted the operating environment in the jewellery industry.

Moderate debt protection metrics: The company's adjusted debt/OPBITDA (adjusted for cash equivalent) stood at 4.0 times in FY2018, and interest cover stood at 2.1 times in FY2018. The coverage indicators were moderate on account of high volume and low margin nature of business due to wholesale operations. However, a part of the working capital debt is funded by promoters' unsecured loan.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Mohanlal Jewellers was founded in 1990 by its proprietor, Mr. M. Mohanlal Khatri, who has 35 years of experiences in gold jewellery wholesale industry. The firm was converted into a private limited company in 2011. The company deals with various jewellery and bullion supply on a wholesale basis in South India and also caters to export orders.

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	3,478.5	5,191.2
PAT (Rs. crore)	9.5	26.4
OPBDIT/OI (%)	0.6%	0.7%
RoCE (%)	9.5%	13.2%
Total Debt/TNW(times)	3.7	3.0
Total adjusted* Debt/TNW (times)	1.6	1.5
Total debt / OPBDITA (times)	13.4	8.2
Total Debt adjusted*/OPBDITA (times)	5.7	4.0
Interest coverage (times)	1.1	2.1

*Adjusted for free cash and fixed deposits

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund based – CC	Long Term	100.00		August 2018 [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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	100.00	[ICRA]BBB (Stable)

Source: Mohanlal Jewellers Private Limited

ANALYST CONTACTS

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

Raghav Madhavan
+91 44 4297 4310
raghav.madhavan@icraindia.com

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

Rathina Pradeep
+91 44 4297 4315
rathina.r@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:

+91-124-2866928 (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) 6606 9999

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