

December 12, 2019

## Mohanlal Jewellers Private Limited: Ratings downgraded to [ICRA]BB+(Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based-CC	100.00	100.00	Rating downgraded to [ICRA]BB+(Stable) from [ICRA]BBB(Stable)
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating revision takes into consideration a decline in Mohanlal Jewellers Private Limited's (MJPL) revenue in FY2019 from both gold bullion and manufactured jewellery segments and a decline in its debt protection metrics on account of higher interest cost in FY2019. The rating action also considers the possibility that the company's financial flexibility might be affected in case of any unfavourable verdict by the appellate tribunal on the company's ongoing trial with the Enforcement Directorate. Nonetheless, ICRA notes that the company had earlier received a favourable ruling from the adjudicating authority in this case, against which the Enforcement Directorate had appealed in the appellate tribunal. Hence, the outcome of the same will be a key rating factor in the near term.

These apart, the ratings continue to remain constrained by the company's limited geographical presence, regulatory risks associated with the gold jewellery sector (which impacted the players in the past) and the vulnerability of the operating margins to fluctuations in gold prices (low inventory holding mitigates this risk to an extent).

The ratings remain supported by the long experience of the promoters in the wholesale gold jewellery industry, and the company's established customer base, comprising renowned jewellery retailers in Tamil Nadu, which entails repeat business orders. The company's financial profile is characterised by healthy capital structure and low working capital intensity.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that MJPL will continue to benefit from the stable demand from retailers and the company's healthy customer base.

### Key rating drivers and their description

#### Credit strengths

**Established presence in the wholesale jewellery industry with healthy customer base** - The promoters have close to four decades of experience in gold jewellery wholesale business and the same has helped the company in establishing a diversified customer portfolio comprising renowned retailers across Tamil Nadu. Further, the company's working capital is partly funded through unsecured loans from promoters and the promoters have been infusing funds into the business on a regular basis, which resulted in a healthy capital structure.

**Low inventory days mitigate price fluctuation risk to an extent** - 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 (in gold-bullion segment) of its sales. The company's working capital intensity stood at ~9.3% as of March 31, 2019.

## Credit challenges

**Decline in revenue and moderation in debt protection metrics** - In FY2019, the company's sales volume in the gold bullion segment declined by 66% and manufacture jewellery declined by 21%, resulting in an overall decline in revenue by 44%. Further, the company's interest cover moderated to 1.9 times in FY2019 from 2.1 times in FY2018 on account of elevated interest cost amid a stable OPDITA level. The company has 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 company's profitability metrics are vulnerable to fluctuation in gold prices.

**Ruling by the Appellate Tribunal a key factor** - In April 2018, the Enforcement Directorate had provisionally attached MJPL's fixed deposits (FD) held with the bank wherein the company was made a party to a case concerning default of one of its erstwhile customers, Kanishk Gold Private Limited (KGPL). ICRA notes that, MJPL, in October 2018, had received a favourable ruling from the adjudicating authority, which had dismissed the provisional attachments of the company's FDs by ED. However, the ED has subsequently appealed against the judgment in the Appellate Tribunal. While the ongoing trial has not impacted its business performance significantly, any adverse ruling in the case would impact its financial flexibility.

**Exposed to regulatory and geographical concentration risks** - The jewellery industry has undergone multiple regulatory changes in the past like mandating Permanent Account Number for purchases above a certain limit, tax deducted at source on cash transactions, changes in import duty etc, which impacted demand and supply dynamics of the industry. Hence, concerns remain over any regulatory intervention, which may impact the operating environment in the jewellery industry.

## Liquidity position: Adequate

MJPL's liquidity is adequate considering its short working capital cycle and lack of term-loan repayment obligations amid sustained cash accruals. Its average cash credit utilisation stood at around 63% of the sanctioned limit in the past 15 months ended October 2019.

## Rating sensitivities

**Positive triggers** – ICRA may upgrade MJPL's ratings if the company sustains its profitability and increases its scale, and ongoing issues with the government agency are resolved completely.

**Negative triggers** – Negative pressure on MJPL's ratings may arise if the company's liquidity profile weakens on account of the stretched working capital cycle or withdrawal of the promoters' unsecured loan, or if its profitability deteriorates significantly. Downward pressure may also emerge if the company's liquidity is impacted by the outcome of the ongoing trial with the ED.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation/Standalone	Rating is based on the standalone financial statements of the rated entity.

## About the company

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

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	5,190	2,921
PAT (Rs. crore)	20.5	19.8
OPBDIT/OI (%)	0.7%	1.4%
RoCE (%)	13.2%	15.3%
Total Debt/TNW(times)	3.3	1.6
Total Debt / OPBDITA (times)	8.4	4.3
Interest Coverage (times)	2.1	1.9

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					12-December 2019	07-August 2018	-	-
1	Fund based – CC	Long Term	100.00		[ICRA]BB+ (Stable)	[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](http://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]BB+(Stable)

Source: Mohanlal Jewellers Private Limited

## ANALYST CONTACTS

**Ravichandran. K**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Akshay Kumar**  
+91 44 4297 4310  
[akshay.m@icraindia.com](mailto:akshay.m@icraindia.com)

**Srinivasan. R**  
+91 44 4596 4315  
[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Rathina Pradeep**  
+91 44 4297 4315  
[rathina.r@icraindia.com](mailto:rathina.r@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

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

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

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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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