Navrathan Jewellers Private Limited

April 17, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based - Cash Credit	20.00	[ICRA]BBB- (Stable); assigned
Long-term - Fund Based – WCDL	55.00	[ICRA]BBB- (Stable); assigned
Long-term – Unallocated	10.00	[ICRA]BBB- (Stable); assigned
Total	**85.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into account the extensive experience of Navrathan Jewellers Private Limited's (NJPL) promoters in the gems and jewellery industry, the established customer base in Bangalore market and the diversified revenue base through presence in jewellery retail and bullion trading business. Further, the ratings take into consideration the company's conservative capital structure and nominal fixed repayment obligation, which renders financial flexibility to some extent. The rating factors in the financial support provided by the promoters over the years in the form of unsecured loans. The rating also takes into account the favourable long-term prospects for jewellery retailing in India which is likely to lend support to the company's business prospects over the medium-to-long term.

The ratings are, however, constrained by the company's low profitability due to high proportion of revenues from the bullion trading operations. However, going forward, it plans to increase the jewellery retail operations which is expected to result in better profitability. The rating is also constrained by the vulnerability of operating margins to fluctuations in gold prices, in the absence of any formal hedging mechanism. The rating is further constrained by the company's limited geographical presence with retail operations restricted to Bangalore, the intense competitive pressure exerted by larger regional/pan-India players which limits NJPL's pricing flexibility, and its high working capital requirements towards inventory holding at its stores. Further, the company's revenues and profitability are vulnerable to the regulatory risk associated with the domestic gold jewellery sector. ICRA also notes the high utilisation of working capital facilities resulting in limited buffer to meet contingencies. However, the proposed enhancement in the working capital facilities is expected to ease the liquidity position.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that NJPL will continue to benefit from the favourable demand prospects for the jewellery sector and the extensive experience of its promoters in the industry and their financial commitment towards the company. The outlook may be revised to Positive if the company is able to achieve strong growth in its retail sales, leading to improvement in margins without any weakening in the capital structure or liquidity position. The outlook may be revised to Negative in case of deterioration in profitability metrics, or increase in debt levels or working capital intensity.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the jewellery industry and financial support provided by them - Mr. M. Goutham Chand has more than six decades of experience in the jewellery sector. He laid the foundation of NJPL in 1993. The brand has an established presence in the Bangalore market. Further, the promoters have extended unsecured loans over the years for partly funding the company's working capital requirements. NJPL has unsecured loans from promoters of Rs. 24.23 crore as on 11M FY2019.

Established presence in Bangalore - NJPL started with the first showroom in 1993 at M.G. Road. It has three stores in Bangalore and it enjoys a strong brand name in the retail jewellery market of Bangalore. Further, the marketing initiatives and gold-saving schemes drive the footfalls.

Conservative capital structure and nominal fixed repayment obligation - NJPL's capital structure has remained conservative over the years. The company's gearing is low at 0.48 times for 11M FY2019. The TOL/TNW is also low at 0.91 times for 11M FY2019. The repayment obligations remain low as the term debt includes only vehicle loans of Rs. 0.73 crore as on February 28, 2019. Its conservative gearing and low long-term debt obligation provides financial flexibility to some extent.

Favourable long-term demand outlook for gold jewellery - Jewellery consumption in India has been traditionally driven by the strong cultural affinity for gold, with gold being the preferred form of jewellery. Stable wedding and festive demand are likely to keep the demand sentiments strong. However, the demand-supply metrics remain vulnerable to any policy initiatives of the Government.

Credit challenges

Thin operating margins due to significant revenue contribution from bullion trading business - The company has presence in jewellery retail as well as bullion trading business. The trading nature of operations keeps NJPL's operating margin low, although the same improved in FY2019 in comparison to the previous year mainly because of higher share of retail business, coupled with rise in gold rates. The management plans to increase the retail operations which is expected to result in better profitability.

Exposure of profitability to fluctuation in gold prices - The retail business is working capital intensive in nature as adequate inventory is required to be maintained across the stores. With limited hedging mechanism the earnings remain exposed to volatility in gold prices. It hedges the price volatility risk, to an extent, through its back-to-back transactions, by purchasing similar quantity as the previous day's sales. However, the risk on inventory remains. Further, for bullion trading business, it procures gold based on speculative procurement mechanism to some extent, exposing the profitability to fluctuation in gold prices.

Limited geographical presence and significant competition - Gold jewellery retailing is competitive with the presence of large organised and unorganised players. Further, NJPL's limited geographical presence with retail operations restricted to Bangalore, limits its scale of operations and pricing flexibility. Additionally, the limited value addition restricts the operating margins of the players.

Regulatory risks in the industry - The jewellery industry has witnessed increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like limited access to gold metal loan, mandatory PAN card disclosure requirement for purchases, limitation on jewellery saving schemes, demonetisation, etc, had its effect on both demand and supply. Increasing supervision and the cautious lending environment restricts fund flows in the sector.

Liquidity position

The company has high utilisation of working capital facilities, with average utilisation of ~93% of the sanctioned facilities for the period of March 2018 to February 2019. This results in limited buffer to meet contingencies. However, the proposed enhancement in the working capital facilities is expected to ease the liquidity position. Additionally, it has limited repayment obligations, with only vehicle loans of Rs. 0.73 crore outstanding as on February 28, 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in Gold Jewellery - Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financial statements of the issuer

About the company

Promoted by Mr. M. Goutham Chand and his family, in 1993, NJPL is involved in trading of bullion and retailing of gold, diamond, silver, platinum jewellery and gems. It also deals in antique jewellery and gold and silver wares/idols. NJPL presently operates out of three stores in Bangalore and 1 store in Delhi.

In 11M FY2019, the company reported a net profit of Rs. 17.68 crore on an OI of Rs. 1027.85 crore, as per provisional financials, as compared to a net profit of Rs. 8.77 crore on an OI of Rs. 1524.87 crore for FY2018.

Key financial indicators (audited)

	FY2017	FY2018	11M FY2019 Prov
Operating Income (Rs. crore)	1382.57	1524.87	1027.85
PAT (Rs. crore)	9.14	8.77	17.68
OPBDITA/OI (%)	1.56%	1.39%	3.55%
RoCE (%)	10.69%	8.28%	13.57%
Total Debt/TNW (times)	0.47	0.58	0.48
Total Debt/OPBDITA (times)	3.98	5.16	2.51
Interest Coverage (times)	1.96	2.15	3.41

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 April 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Cash Credit	Long term	20.00	-	[ICRA]BBB- (Stable)	-	-	-
2	WCDL	Long term	55.00	-	[ICRA]BBB- (Stable)	-	-	-
3	Unallocated	Long term	10.00	-	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	20.00	[ICRA]BBB- (Stable)
NA	WCDL	-	-	-	55.00	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	10.00	[ICRA]BBB- (Stable)

Source: Navrathan Jewellers Private Limited

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About ICRA Limited:

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