November 04, 2020

Bholasons Jewellers (Gold Souk): Ratings reaffirmed; Issuer rating reaffirmed and withdrawn

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund Based limits	46.00	46.00	[ICRA]BBB- (Stable); reaffirmed
Long Term: Unallocated	34.00	0.00	[ICRA]BBB- (Stable); reaffirmed and withdrawn
Total	**80.00**	**46.00**	
Issuer Rating	0.00	0.00	[ICRA]BBB- (Stable); reaffirmed and withdrawn

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the established brand name of Bholasons Jewellers (Gold Souk) (Bholasons) in the Delhi/NCR[1] market and the extensive experience of its partners in the jewellery retail business. The vast experience of the partners coupled with continuous focus on new design improvement has enabled the firm to establish a strong market presence and capture a loyal customer base in its addressable markets. ICRA also notes the strategic location of its showrooms in the Gold Souk mall (Gurgaon) and Karol Bagh (New Delhi), aiding in generating adequate footfalls. The rating also factors in the increase in Bholasons's operating margins in FY2020 led by better price realisations and stable sales contribution from the margin-accretive diamond and studded jewellery ornaments. The rating also draws comfort from Bholasons's stable financial profile, aided by comfortable capitalisation and debt coverage indicators, and adequate liquidity position. The ratings, however, are constrained by Bholasons's relatively modest scale of operations and large inventory holding requirements. The sizeable inventory levels expose the firm to inventory price risk, owing to the volatility in gold prices. However, access to gold metal loans, which constitute ~50% of its procurement, provides an effective hedge. ICRA also notes the moderation in the firm's revenues in FY2020 following an increase in gold prices (resulting in lower volumes), overall slowdown in economy, and closure of operations during the last 10 days of March 2020. ICRA further notes the expected moderation in the firm's revenues in FY2021 due to the impact of Covid-19 pandemic on operations and jewellery demand, which is discretionary in nature. In line with the industry, the firm's revenues plunged ~67% YoY in 5M FY2021 due to closure of its stores during the lockdown and weak consumer demand. The firm continues to be exposed to geographical-concentration risks with most the revenues being derived from the Gurgaon outlets. ICRA also notes the intense competition in the gold retailing segment from a large number of organised manufacturers, limiting its pricing ability and constraining improvement in margins. Moreover, ICRA notes the inherent regulatory risks in the industry along with the challenges that partnership firms face in the form of limited disclosures, capital continuity/withdrawal risks, etc. Cummulative withdrawals amounted to Rs. 23.3 crore in the past five-year period.

The Stable outlook on the long-term ratings reflects ICRA's opinion that Bholasons will continue to benefit from its adequate liquidity position, established brand name in the Delhi/NCR market and the extensive experience of its partners. The firm's performance would remain sensitive to the duration and breadth of the pandemic before an

[1] National Capital Region

eventual containment. These near-term challenges notwithstanding, Bholasons' ability to maintain its credit profile will be monitored.

Key rating drivers and their description

Credit strengths

Strategically located showrooms attract footfalls – The firm operates out of each of its three showrooms and one export office in Gold Souk mall and Karol Bagh, which aid in garnering footfalls. The strategic location of the Gold Souk mall in Gurgaon generates healthy revenues and accounted for ~78% of the FY2020 top line.

Extensive experience of promoters in jewellery retail business – The firm, led by Dr. Rajendra Bhola, has been in existence since 2004 and currently operates three stores and one export office in Delhi and Gurgaon. The firm benefits from the extensive experience of its partners in the jewellery retail industry and established presence of the Bholasons brand in the Delhi/NCR jewellery retail market.

Established market presence – Owing to its established track record of operations, the firm enjoys a strong brand pull in the region it operates, aiding sustained footfalls and revenues. The promoters have extensive experience in the jewellery retail business for more than six decades, which has helped it in developing established relationships with domestic and overseas customers.

Credit challenges

Pandemic-induced lockdown and subdued demand sentiments to impact revenues in FY2021 – Bholasons's scale of operations remains moderate with revenues of ~Rs. 190.7 crore in FY2020. Further, low discretionary spending by consumers due to the sharp increase in gold prices, weak macroeconomic sentiments, loss of business in the first 60 days of complete lockdown, and subsequent localised lockdowns, and rather uncertain economic situation due to the still evolving pandemic, the firm is likely to witness a sharp contraction in revenues in FY2021. ICRA will continue to monitor any larger-than-expected contraction in demand stemming from the sustained lockdowns.

Working capital-intensive nature of business – The jewellery retailing business is inherently working capital intensive because of the optimal inventory required to be maintained across the stores, given the need to display varied designs of jewellery to customers. The firm's stock levels have increased in the recent months to Rs. 143.1 crore as on March 2020 against Rs. 108.6 crore as on March 2017. Its ability to improve stock rotation and working capital cycle will be a critical credit monitorable.

High geographical-concentration risk and stiff competition – The firm operates out of its three showrooms and one export office in the Delhi/NCR region, although its Gold Souk mall contributes to a significant share of revenues. Hence, it remains exposed to stiff competition, given the large number of alternates within the mall location. Gold jewellery retail business is also highly competitive, given the presence of many organised and unorganised players, leading to limited pricing flexibility among players. Nevertheless, its established brand presence in the region it operates and strong customer base act as risk mitigants.

Exposure to regulatory risks – Increased regulatory intervention in the jewellery industry in the recent years has impacted the demand-supply scenario in the industry. Measures like 20/80 restriction on imports, mandatory disclosure requirement for purchases above threshold limits, restrictions on jewellery saving schemes, imposition of excise duty and GST, increase in import duty, demonetisation, etc. have affected demand and supply in the past. Increasing supervision and a cautious lending environment further restricted fund flows to the sector, hampering store expansion plans and liquidity profile of retailers.

Inherent risks in partnership nature of business, continuous withdrawals have restricted build-up of capital – The firm remains exposed to the challenges inherent to partnership businesses, such as withdrawals by partners. The cumulative withdrawals amounted to Rs. 23.3 crore over the past five-year period.

Liquidity position: Adequate

The firm's liquidity position is **adequate** with positive fund flow from operations in FY2020, average working capital utilisation of ~60% of the sanctioned limits for the 12-month period that ended in July 2020 and no repayment obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade Bholasons's rating if the firm demonstrates high revenue and profitability resilience in the current pandemic situation along with efficient management of working capital requirements. In addition, widening its geographical presence while maintaining its credit metrics could be a credit positive.

Negative triggers – Downward pressure on Bholasons's ratings could arise if there is a material decline in its scale of operations and profitability, resulting in lower cash accruals. In addition, significant profit and capital withdrawals impacting the firm's liquidity position could lead to a ratings downgrade. Specific credit metrics that could lead to a rating downgrade may include an increase in TOL/TNW to more than 1.5 times on a sustained basis.

Analytical approach

	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery-Retail Industry ICRA Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the firm

Bholasons Jewellers (Gold Souk) was set up in 2004 as a partnership firm by Dr. Rajendra Bhola and is involved in the retailing of gold and diamond-studded jewellery for the domestic and export markets. It is a family-owned business run by three partners —Dr. Rajendra Bhola, his wife (Mrs. Sangeeta Bhola) and son (Mr. Abhinav Bhola)—who are actively involved in the day-to-day operations of the business.

Key financial indicators

	FY2019*	FY2020^
Operating Income (Rs. crore)	197.7	190.7
PAT (Rs. crore)	5.5	6.7
OPBDIT/OI (%)	4.7%	5.7%
PAT/OI (%)	2.8%	3.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.4
Total Debt/OPBDITA (times)	4.9	4.9
Interest Coverage (times)	2.8	3.0

Source: Financial statements of Bholasons; ICRA research; *Audited; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated*	Amount Outstanding	Rating		FY2020		FY2019	FY2018
					4-November-2020	22-September-2020	12-Sept-2019	2-Sept-2019	-	-
1	Cash Credit	Long Term	46.00	-	[ICRA]BBB - (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	-	-	-
2	Unallocated	Long Term	34.00	-	[ICRA]BBB - (Stable)#	[ICRA]BBB- (Stable)	-	-	-	-
3	Issuer Rating	Long Term	-	-	[ICRA]BBB - (Stable)#	[ICRA]BBB- (Stable)^	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	-	-

**Amount in Rs. crore; ^ reaffirmed and put on notice of withdrawal for one month; # reaffirmed and withdrawn*

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	November 2018	-	-	46.00	[ICRA]BBB- (Stable)
-	Unallocated	-	-	-	0.00	[ICRA]BBB- (Stable); withdrawn
-	Issuer Rating	-	-	-	-	[ICRA]BBB- (Stable); withdrawn

Source: Bholasons

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

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

Vipin Jindal
+91 124 4545 355
vipin.jindal@icraindia.com

Manish Ballabh
+91 124 4545 812
manish.ballabh@icraindia.com

Sugandha Arora
+91 124 4545 398
sugandha.arora@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:

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

info@icraindia.com

About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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) 2556 0194/ 6606 9999