

September 12, 2019

Bholasons Jewellers (Gold Souk): [ICRA]BBB- (Stable) assigned

Summary of rated instruments

Instrument*	Amount Rated (Rs. crore)	Rating Action
Long Term: Fund Based limits	80.00	[ICRA]BBB- (Stable); assigned
Issuer Rating	Nil	[ICRA]BBB- (Stable); outstanding

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the long-standing experience of partners in the jewellery retail business for several decades and the strategic location of its showrooms in Gold Souk mall aiding in generating adequate footfalls, as evident from its healthy revenue growth 11.7% on a YoY basis in FY2019. The rating also favorably factors in the adequate cushion available in the form of gold metal loans which constitute to ~80% of procurement guarding against any price variation risk. The rating, however, is constrained by the relatively modest scale of operations and high geographical-concentration risk as it derives revenues from its three showrooms in Delhi NCR region, with its gold souk store contributing to ~79.3% of its revenues in FY2019. Also, the rating is constrained by the inherent nature of partnership business characterised by drawals by partners. Cumulative drawals amount to Rs. 14.60 crore over the past five-year period. Further, the rating remains constrained by the inherent risks in gold jewellery business given the recent increase in gold prices, resulting in weak consumer demand over the next quarter and exposure to regulatory changes in the industry.

Going forward, the ability of the firm to improve the scale of operations, sustain during the weak consumer demand scenario and improve its working capital intensity will be the key credit monitorable. Also, ICRA will continue to monitor on the drawals made by partners.

Outlook: Stable

ICRA believes that the firm will continue to benefit from its extensive experience of its partners and strong brand presence in the region. The outlook may be revised to Positive in case there is improvement in profitability indicators and return metrics or in case of strengthening liquidity position. The outlook may be revised to Negative in case of any huge drawals by partners weakening the networth position or in case of further deterioration of working capital intensity.

Key rating drivers

Credit strengths

Strategic location of showrooms: The firm operates out of its three showrooms in Gold souk mall and in Karol Bagh which has aided in garnering footfalls. Strategic location in Gold souk mall in Gurgaon generates healthy revenues accounting to ~79.3% of FY2019 revenues.

Established market position: The firm deals in retailing of various gold, studded and diamond jewellery across various items including bangles, necklaces, and earrings under the 'Bholasons' brand for various target segments like bridal,

working women and daily-use jewellery. Established market position has helped in generating adequate footfalls, as evident from its healthy revenue growth 11.7% on a YoY basis in FY2019.

Extensive experience of partners: The promoters have extensive experience in the jewellery retail business for more than six decades which has helped in developing established relationships with domestic and overseas customers.

Adequate gold metal loans safeguards against price volatility: The firm has adequate cushion available in the form of gold metal loans (~300 kg) which constitute to ~80% of procurement guarding against any price variation risk.

Credit weaknesses

High geographic concentration risk: The firm operates out of its three showrooms in Delhi NCR region although its Gold souk mall contributes to a significant share of revenues. Thereby, the firm remains exposed to high competition, given the large number of alternates within the mall location.

Inherent risks in partnership nature of business: The firm remains exposed to the inherent nature of partnership business characterised by drawals by partners. Cumulative drawals amount to Rs. 14.60 crore over the past five-year period.

High working capital intensity: The working capital intensity in the business is high at ~55.4% in FY2018 characterised by huge inventory holding given the retail nature of business.

Exposure to global pricing variations, Government policies and weak market sentiment: The dependence of gold price on global market scenarios continues to be critical as it remains volatile. This coupled with adverse Government policies and weak consumer demand across industries might impact the overall demand of gold.

Liquidity position: Adequate

The liquidity position remains comfortable given that the firm generates adequate accruals despite the continuous withdrawals and there are no repayment obligations. Also, there is adequate buffer on working capital limits as reflected by low working capital utilisation of ~24.8% on the sanctioned lines during the twelve-month period ending March 2019. Further, BJ has support by way of unsecured loans from promoters of Rs. 3.10 crore as on March 31, 2019.

Rating sensitivities

Positive Triggers: ICRA could upgrade the rating if the firm demonstrates consistent track record in reporting healthy revenue growth and sustain its operating margins over 5.0%. Further, the rating movement could be driven by efficient working capital management.

Negative Triggers: The rating could be downgraded if there are sizeable withdrawals by partners which could adversely impact the liquidity position and consequently result in deterioration of TOL/TNW above 1.5 times.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

Bholasons Jewellers (Gold Souk) was set up in 2000 as a partnership firm by Mr. Rajendra Bhola, and is involved in the retailing of gold and diamond-studded jewellery for the domestic (79% of FY19 revenues) and export markets (~21%). It is a family owned business run by three partners, Mr. Rajendra Bhola, his wife – Mrs. Sangeeta Bhola and son - Mr. Abhinav Bhola also being actively involved in the day-to-day operations of the business.

Key Financial Indicators

	FY2017	FY2018
Operating Income (Rs. crore)	151.3	176.9
PAT (Rs. crore)	-14.9%	16.9%
OPBDIT/OI (%)	6.4%	5.8%
RoCE (%)	8.5%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	0.9
Total Debt/OPBDIT (times)	5.5	3.6
Interest Coverage (times)	1.8	2.9
DSCR	1.8	3.0

Source: Firm

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	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				Sept 12, 2019	Sept 2, 2019	-	-	-
1	Fund Based limits – Cash Credit	80.00	80.00	[ICRA]BBB-(Stable)	-	-	-	-
2	Issuer Rating	Nil	Nil	-	[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	Fund Based limits: Cash Credit facilities	Nov 2018	-	-	80.00	[ICRA]BBB- (Stable)
NA	Issuer Rating	Nov 2018	-	-	Nil	[ICRA]BBB- (Stable); outstanding

Source: Firm

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

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