



Press Release

Khandelwal Jewellers (Akola) Pvt Ltd

September 15, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	24.18	IVR BB+/Stable Outlook (IVR Double B plus with Stable Outlook)
2	Proposed Bank Facilities- Long Term/Short Term	0.82	IVR BB+/Stable Outlook and IVRA4+ (IVR Double B plus with Stable Outlook and IVRA Four Plus)
	Total	25.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Khandelwal Jewellers (Akola) Pvt Ltd derives comfort from its extensive experience of the promoters in the jewellery business, comfortable capital structure and moderate debt protection metrics, established relationship with customers and effective cash conversion cycle. However the rating strength are partially offset by fluctuating scale of operations coupled with thin profitability, susceptible to regulatory changes in India and business exposed to intense competition from organized and unorganized players.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals on sustained basis
- Improvement in the capital structure and debt protection metrics



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Downward factor:

- Deterioration in scale of operation coupled with deterioration in profitability on a sustained basis
- Deterioration in the capital structure
- Any regulatory changes
- Impairment in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the Jewellery Business

KJAPL is promoted by Mr. Nitin M Khandelwal (Chief Managing Director) and Mr. Ravindra M Khandelwal having a combined experience of around four decades in the jewellery business. Mr. Nitin M Khandelwal was the chairperson of All India Gems and Jewellery Council for past two years (January 2017- January 2019) and currently is the director of Gem and Jewellery Skill Development Council. He is a Founder-Director of All India Gems and Jewellery trade Federation. Mr. Ravindra M Khandelwal holds a bachelor's degree in Architecture and looks after all the backend processes like: Accounting, etc. process in KJAPL and frontend like: customer dealing, etc. is looked after by Mr. Nitin M Khandelwal.

Comfortable capital structure and moderate debt protection metrics

The adjusted net worth stood at of Rs.16.51 crore as on March 31, 2019. To arrive at the adjusted net worth, Infomerics has considered Rs.6.50 crore of unsecured loans from promoters as quasi equity as the same is subordinated to the bank facilities. The KJAPL's capital structure stood comfortable as marked by overall gearing of 1.59x as on March 31, 2019, which further slightly improved and stood at 1.42x as on March 31, 2020 (provisional numbers). KJAPL has almost no long-term debt and its debt profile mainly consists of bank borrowings (Cash Credit facility). Further, total indebtedness as reflected by the TOL/TNW remained moderate at 3.28x as on March 31, 2019.

Established relationship with customers

KJAPL supplies the jewellery to domestic wholesalers (which in turn supply to wholesalers in other countries) and major chunk of sales being done to retail customers. The company has



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maintained healthy relationship with its customers resulting into repeated orders. The total sales of the company constitute 75%-80% of retail sales in FY19.

Effective Cash Conversion Cycle

The Company has an effective receivables management system. Receivables ranging from 5 days to 17 days in the past four financial years. The inventory holding days stood at 100 days in FY19, which reduced to 94 days in FY20. As the company is mainly dealing with retail customers, it has to keep a large variety of ornaments with self in order to provide customer a number of designs to choose from. Being in retail trade the company has high bargaining power with its customers and the wholesalers due to its established relationship with them and offers a credit of only 5-6 days to its customers resulting in cash conversion cycle of 90 days in FY19. Further, KJAPL's average utilisation of bank limits also stood at ~99% during the past 12 months ended July 2020.

Key Rating Weaknesses

Fluctuating scale of operations coupled with thin profitability

The total operating income of the company witnessed a fluctuating trend for the past three financial years with reporting a decline of 17.11% in FY19 and a growth of 8.17% in FY20 (provisional numbers). Profitability margins as marked by EBITDA and PAT remained thin over the years. With leveraged capital structure coupled with thin profit margin, Total debt/Gross cash accruals stood high at 19.39x as on March 31, 2019 as against 9.60x as on March 31, 2018. This deterioration was primarily on account of increase in working capital borrowings by the company. Further, the interest coverage ratio also remained moderate at 1.52x in FY19. During 3MFY21, the company has achieved a turnover of Rs.6.64 crore as against Rs.37.41 crores in 3MFY20 and Rs.34.94 crore in 3MFY19.

Susceptible to regulatory changes in India

Gold is an important commodity traded in the international market, so trading in gold and gold jewellery is highly influenced by several government policies and regulations, which keeps on changing from time to time. Any unfavourable change in government policies could affect the business adversely.



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Exposed to intense competition from organized and unorganized players

The jewellery industry in India is highly fragmented with presence of numerous unorganised players apart from some very large integrated G&J manufacturers leading to high competitive intensity. The company faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry affects the company's profit margins.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading (Wholesale and Retail) Sector

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity of the company is expected to improve with minimal long-term debt repayment and adequate cash accruals with no planned capex or availing of long-term debt. The company had free cash and bank balance of Rs.1.17 crore as on March 31, 2019 and Rs.2.46 crore as on March 31, 2020 (provisional numbers). The average utilisation of working capital limits stood at ~99% during the past 12 months ended July 2020. In the absence of any scheduled term debt repayment in the company, the liquidity position is expected to improve going forward.

About the company

Khandelwal Jewellers (Akola) Private Limited (KJAPL) is involved in wholesale and retail trading of Gold, Diamond and Platinum Jewellery. KJAPL is promoted by Mr. Nitin M Khandelwal and Mr. Ravindra M Khandelwal, who have a combined experience of around four decades in G&J Industry.

KJAPL has three retail showrooms (two in Akola District and one in Washim District) with one wholesale division and controlling office at 7th Floor, Room No. 718, Jewel World, Cotton Exchange Building, Kalbadevi Road, Mumbai.



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Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	138.37	149.67
EBITDA	5.25	5.33
PAT	0.41	0.65
Total Debt	26.30	24.65
Tangible Net worth*	16.51	17.41
EBITDA Margin (%)	3.80	3.56
PAT Margin (%)	0.30	0.44
Overall Gearing Ratio (x)^	1.59	1.42

*Loan from directors, related parties and group companies has been treated as Quasi-equity

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Working Capital Demand Loan	Loan Term	24.18*	IVR BB+, Stable	-	-	-
2.	Proposed Long/Short Term Banking Facilities	Long Term/Short Term	0.82	IVR BB+, Stable/A4+	-	-	-

*Includes sub limit of Bank Guarantee of Rs. 18.00 crore and Gold Metal Loan of Rs. 12.00 crore

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term-Working Capital Demand Loan	-	-	-	24.18*	IVR BB+, Stable
Proposed Long Short Term Banking Facilities	-	-	-	0.82	IVR BB+, Stable/ IVR A4+

*Includes sub limit of Bank Guarantee of Rs. 18.00 crore and Gold Metal Loan of Rs. 12.00 crore