Press Release

Musaddilal Jewellers Private Limited

March 25, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits- Cash Credit	65.00	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)
	Total	**65.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters, long track record and strategic locations of retail outlets. The rating however is constrained by declining scale of operation, thin profitability margins, moderate capital structure and debt protection metrics, high operating cycle, regulated industry and presence in a highly fragmented and competitive diamond processing and jewellery industry. Improvement in profitability and capital structure are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters

Mr. Kailash Chand Gupta, the third generation promoter having experience of around four decades in the jewellery making segment, is involved in the day-to-day affairs of the company. He is well supported in the routine operations by his son Mr. Nikhil Gupta and a management team who have relevant experience in their respective fields.

Long track record of operations

The promoter group is engaged in this line of business for around twelve decades through various entities. MJPL itself has a track record of 27 years since it opened its first showroom at Basheerbagh in Hyderabad in 1992.

Strategic locations of retail outlets

The company's main retail store is located at Panjagutta in Hyderabad, which is a prime location and is easily accessible. Similarly, its other outlet in Vijayawada in Andhra Pradesh is situated on Eullru road near the main market area.

Key Rating Weakness

Declining scale of operation

The company's topline dipped from Rs.364.14 crore in FY16 to Rs.154.20 crore in FY18 on account of decline in the bullion trading segment. The company has reduced focus in this segment due to lower margins in this segment.

Thin profitability margins

Although improving, MJPL's EBITDA and PAT margins continue to remain thin at 6.31% and 1.08% respectively during FY18, as trading contributes around 40% of the company's total revenue.

Moderate capital structure and debt protection metrics

The company's capital structure is moderate marked by overall gearing of 1.29x as on March 31, 2018 (1.42x as on March 31, 2017). TOL/TNW stood at 1.49x as on March 31,2018. Total debt/gross cash accruals stood at 23.85x in FY18. However, Long Term debt to GCA was comfortable at 0.31x. Further the debt protections parameters are also moderate, marked by interest coverage ratio of 1.54x and DSCR of at 1.34xin FY18.

High operating cycle

The Gems & Jewellery segment is working capital intensive. The inventory holding period is high at over 200 days, largely on account of higher inventory in retail segment. Operating cycle is high at around 220 days. The average working capital utilisation in the last 12 months ended February 28, 2019, was high at about 85.89%.

RegulatedIndustry

To some extent, MJPL will remain exposed to regulatory risks in the jewellery segment. This sector had seen heightened regulatory initiatives in the past. For instance, during fiscal 2014, to curb the import of gold, the government introduced 80:20 rule, discontinued gold on lease scheme and modified the gold deposit scheme. Further, since January 2016, the government has mandated jewellers to collect PAN card for all purchases beyond Rs.2 lakhs. The government has also introduced the sovereign gold bond scheme to shift consumer preferences away from physical gold.

Presence in a highly fragmented and competitive diamond processing and jewellery industry

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. However, larger integrated G&J players with strong sourcing relationships for raw material (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy are likely to exhibit more stable credit profiles.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company's average utilisation of fund based limits was 85.89% during the past 12 months ended February 2019. Further, the company had free cash and bank balance of Rs.0.35crore as on March 31, 2018. In the absence of any scheduled term debt repayment in the company, the liquidity position is expected to be moderate going forward.

About the Company

Musaddilal Jewellers Pvt. Ltd (MJPL) was incorporated in 1992, with a vision of establishing its presence in the retail jewellery segment. The company commenced operation by setting up one retail outlet at Basheerbagh in Hyderabad. Subsequently, the company shifted operations to a larger store located at Punjagutta in Hyderabad in 2005, along with setting up another store in Vijayawada in 2009. The promoter group is engaged in this line of business for around twelve decades through various entities. The company is engaged in trading and manufacturing of designer gold, silver and diamond jewellery.

Financials (Standalone) **(Rs. crores)**

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	235.32	154.20
EBITDA	10.98	9.73
PAT	2.10	1.67
Total Debt	57.80	55.99
Tangible Networth	40.74	43.54
EBITDA Margin (%)	4.67	6.31
PAT Margin (%)	0.89	1.08
Overall Gearing Ratio (x)	1.42	1.29

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings which has earlier rated the company, has classified it as "Issuer Not Cooperating" category due to non-submission of information as per Press Release dated March 8, 2018.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund Based Facilities	Long Term	65.00	IVR BB+/Stable Outlook	--	--	--

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. 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 Fund Based Limits	--	--	--	65.00	IVR BB+/Stable Outlook