

## Khazana Jewellery Private Limited

January 25, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	1,875 (reduced from 2,140)	<b>CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)</b>	Revised from CARE A-/ CARE A2+ (Single A Minus/ A Two Plus)
<b>Total Facilities</b>	<b>1,875 (Rupees One Thousand Eight Hundred and Seventy Five crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale

The revision in the ratings assigned to the bank facilities of Khazana Jewellery Private Limited (KJPL) takes into account the sharp fall in profits in FY16 (refers to the period April 1 to March 31) followed by a sharp fall in sales volumes of gold jewellery during H1FY17 and increase in exposure to group companies resulting in a relatively leveraged capital structure. The rating continues to derive strength from the vast experience of the promoter & established track record of KJPL, strong brand image of 'Khazana', fairly diversified geographic presence with wide reach & strong presence in South India. The ratings are, however, constrained by the working capital intensive nature of operations of KJPL.

Going forward, the ability of KJPL to increase its sales and profitability margins while managing its working capital requirements would be the key rating sensitivities. Furthermore, the ability of the company to manage its exposures to group entities and improve its capital structure would also be a key rating monitorable.

### Detailed description of the key rating drivers

Mr. Kishore Kumar Jain, the promoter of KJPL, has been engaged in the business of gold jewellery since 1975. The 'Khazana' brand enjoys strong brand equity, especially in South India. This has enabled the company to establish several showrooms across Andhra Pradesh, Karnataka, Tamil Nadu and Telangana. KJPL began foraying into the North Indian market during FY15 by establishing three showrooms in Delhi. However, Khazana is still in the initial period of fortifying its presence and brand image there.

During FY16, the total value of gold jewellery sold by KJPL increased by around 9% on the back of incremental sales from the company's newly opened showrooms. Same store sales remained flat during this period. However, KJPL reported a sharp fall (of about 29.50% at an annualized rate) in operating income during H1FY17 mainly on account of lower sales volumes due to increasing gold prices. The company reported a PAT of Rs.2.16 crore in FY16 vis-a-vis PAT of Rs.59.28 crore in FY15. The PBILDT margin and PAT margin declined to 2.98% and 0.05% in FY16 as against 5.30% and 1.43% in FY15 respectively. The fall in margins in FY16 is attributed by the company to losses incurred by the company on forward contact of gold during the year when they changed their method of procurement from using funds from cash credit and covering the price risk with forwards to the gold metal loan (GML) where the price of gold can be fixed on the day of sale. However, the PBIDT and PAT improved to Rs.123.98 crore (margin of 7.75%) and Rs.36.45 crore (margin of 2.28%) during H1FY17 as now the company has indicated that the entire procurement is through GML. Furthermore, the company has reduced its overheads including employee expenses, which has aided improvement in profitability.

The capital structure of KJPL was relatively leveraged on account of its exposures to group companies as on March 2016. The company has made equity investment of Rs.65.09 crore in its Dubai-based, wholly-owned subsidiary and has also extended corporate guarantee to lenders amounting to Rs.179.10 crore for the working capital facility availed by the subsidiary as on March 31, 2016. During H1FY17, KJPL has also invested around Rs.85 crore in another domestic subsidiary. This has resulted in deterioration in the financial profile of the company. KJPL's capital structure is expected to remain leveraged going forward.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

KJPL's operations are working capital intensive primarily due to the finished goods inventory held for display and sale at its showrooms throughout India. The average inventory holding period of the company was 144 days in FY16 compared to 140 days in FY15. The collection period is nil as the business is on cash-and-carry basis which provides a certain degree of comfort to the cash flow position of the company.

**Analytical approach:** Standalone

**Applicable Criteria**

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for short term instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios –Non-Financial Sector](#)

[CARE's methodology for organized retail companies](#)

**About the Company**

KJPL was incorporated as Khazana Jewellery (Madras) Private Limited in 1992, by Mr Kishore Kumar Jain who has been engaged in the business of gold jewellery since 1975. KJPL is engaged in the retailing of gold jewellery, diamonds, silverwares and platinum jewellery. As on September 30, 2016, KJPL operated 48 retail showrooms spread across Andhra Pradesh (AP), Telangana, Tamil Nadu (TN), Karnataka, Pondicherry, Haryana and Delhi.

The retailing of gold jewellery continued to be the major revenue contributor for KJPL contributing to about 95% of sales in FY16, while silver ware, diamonds & standard gold accounted for 2%, 2% & 0.42% of sales respectively.

KJPL reported PAT of Rs.2.16 crore on a total operating income of Rs.4,541.31 crore in FY16 compared to a PAT of Rs.59.28 crore on a total operating income of Rs.4,140.70 crore in FY15. For H1FY17 (unaudited), the company reported a PAT of Rs.36.45 crore on the total operating income of Rs. 1,600.72 crore.

**Status of non-cooperation with previous CRA:**

CRISIL has suspended its ratings on the bank facilities of Khazana Jewellery Pvt Ltd (KJPL) in August 2016 on account of non-cooperation by KJPL with CRISIL's efforts to undertake a review of the ratings.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	1875.00	CARE BBB+; Stable / CARE A2

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	1875.00	CARE BBB+; Stable / CARE A2	-	1)CARE A- / CARE A2+ (13-Jan-16)	1)CARE A- / CARE A2+ (16-Feb-15)	1)CARE A- / CARE A2+ (10-Feb-14)

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