Mohammed Khan Jewellers Private Limited

July 01, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	12.80	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**12.80 (Rs. Twelve Crore and Eighty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Mohammed Khan Jewellers Private Limited (MKJPL) is constrained by declining trend of scale of operations during FY19-FY21 (refers to the period April 01 to March 31), working capital intensive nature of business, geographical concentration risk and company's presence in a highly competitive industry. The ratings also take cognizance of COVID-19 impact of the business operations of the company. The rating, however, derives comfort from experience promoters, established brand image, improvement in profitability margins in FY21 and comfortable financial risk profile.

Key rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade

- ✓ Increasing the scale of operations with TOI improving to Rs 50 crore and above while maintaining PBILDT margin above 12% on a sustained basis.
- ✓ Improvement in liquidity position with average working capital utilisation levels falling below 80% and operating cycle improving to less than 200 days on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Significant decline in the TOI and PBILDT by more than 30% y-o-y
- × Deterioration of capital structure represented by overall gearing ratio weakening beyond 1.5x, in future.

Detailed description of the key rating drivers

Key Rating Weaknesses

Declining and small scale of operation

The Total operating income (TOI) of the company has been on a declining trend since FY19-FY21. The TOI declined by 33.44% y-o-y during FY20 and further by 18.71% y-o-y during FY21. The fall in TOI during FY19 and FY20 was primarily because of increase in gold prices and heavy competition. Subsequently, with outbreak of COVID-19 pandemic, the company witnessed significant impact on the demand of gold jewellery with resulted in subdued revenue in FY21 as well. Furthermore, the retail outlets of the company were completely shut during the lockdown period which further impacted the sales.

Elongated inventory holding and extensive reliance of working capital borrowing

The working capital cycle of the MKJPL continues to remain elongated for FY21 and stood at 474 days. Gems and Jewellery retail industry is characterized by heavy competition and in order to survive and meet the demand quickly, MKJPL maintain high level and variety of inventory for window display and sales to the customers at all of its showrooms. The elongated operating cycle and high inventory level affects the liquidity and results in higher utilisation of bank credit. Hence, MKJPL's dependence on working capital limits continued to remain high at 80.79% average utilisation of working capital limits for the last 12 months ended May 2021.

Geographical concentration risk

The company's operations continue to be concentrated to three showrooms in the Hyderabad area which increase its susceptibility to geographical concentration risk. Majority (99%) of the revenue comes from Nampally location. Its revenue remains vulnerable to any adverse circumstances and sentiments prevalent in the city such as any political unrest, strikes, or other economic/ environmental factors that vary from region to region and may prove to be detrimental to the operations of an organisation.

Highly competitive, regulated and fragmented nature of Gems and Jewellery industry

The G&J industry in India is a largely fragmented, unorganized and export driven industry, with intense competition among players that operate on thin profitability, seasonal demand and working capital intensive operations. Also, this industry is highly regulated by various restrictions and duties imposed by the Government in order to control the current account deficit arising mismatch in exports and import of gemstones, gold and cut/un-cut diamonds. The government has reduced import duty for Gold & Silver (from 12.5% to 7.5%) to bring down the prices of precious metals in the local market also government made hallmarking mandatory for gold jewellery and artefacts from June 2021.

Key Rating Strengths

Experienced promoters and established track record

MKJPL is a closely held company, managed by family members of the promoters, who belong to Mohammed Khan & Sons Group. The company operates under its family brand 'Mohammed Khan and Sons' which is a well-established jewellery house in the state of Telangana for over two decades. Dr. Niyamathulla Khan (Chairman and Managing Director), Mr. Mokhtyar Ahmed (Director) has experience of over two decades in the jewellery business.

Comfortable financial risk profile

The capital structure of the company marked by the overall gearing ratio remained comfortable at 0.89x as on March 31, 2021 backed by steady TNW and accretion of profits. The debt levels increased to Rs. 15.45 crore as on March 31, 2021 as company availed total covid loans of Rs. 3.84 cr. during the year. The interest coverage ratio and TDGCA improved to 2.70x (FY20: 1.25x) and 8.95x (FY20: 33.27x) in FY21 respectively because of lower interest cost as the requirement of working capital limits were low owing to lockdown and reduced operational requirements.

Improvement in profitability margins in FY21.

The PBILDT margin of the company improved to 12.26% in FY21 (FY20: 7.30%) primarily backed by company's increased focus on sale of gold and studded jewellery which carry better margins as compared to plain jewellery (margin of 3.00-3.50%) along with decreased wholesale gold prices during FY21. Also, company took measures to reduce employee cost and selling expenses during FY21 which resulted in better operating profit. Further, PAT margin improved by 484 bps from 0.50% in FY20 to 5.34% in FY21 owing to lower interest cost on account of reduction in working capital utilisation.

Liquidity Analysis – Stretched

The liquidity position of the company is stretched marked by highly utilised working capital bank limits and modest cash balance. Cash accruals are low and tightly matched with the projected debt repayment obligations. However, the company has sufficient gearing headroom with below unity overall gearing ratio and liquidity is supported by an above unity current ratio of 1.87x as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for Manufacturing Companies
Financial ratios - Non-Financial Sector
Criteria for Retail Trade
Criteria on Liquidity Analysis of Non-Financial Sector Entities

About the Company

Mohammad Khan Jewellers Private Limited (MKJPL) has been promoted by Dr. Niyamathulla Khan and his family members. MKJPL, was originally set up as a partnership firm in 1991, reconstituted as a private limited company in August 2004. MKJPL is engaged in retailing of plain gold and diamond studded gold Jewellery. The company is also well known for custom made and traditional Indian Jewellery in the Telangana region and parts of neighboring states of Andhra Pradesh and Karnataka.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	36.09	29.92
PBILDT	2.91	3.67
PAT	0.46	1.60
Overall gearing (times)	0.87	0.89
Interest coverage (times)	1.41	2.70

A-Audited/ Prov.- Provisional

Status of non-cooperation with previous CRA: The rating of Mohammed Khan Jewellers Private Limited has been suspended by CRISIL vide its press release dated December 29, 2016 on account of non-cooperation.

Any other information: Not Applicable

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

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 - LT-Cash Credit	-	-	-	12.80	CARE BB-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	12.80	CARE BB-; Stable	-	1)CARE BB-; Stable (13-Jul-20)	1)CARE BB; Stable (15-Jul-19)	1)CARE BB; Stable (12-Jun-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Nivedita Ghayal
Group Head Contact no. - +040 67937414
Group Head Email ID – nivedita.ghayal@careratings.com

Relationship Contact
Name: Ramesh Bob
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.