Manohar Lal Sarraf and Sons Jewellers Private Limited

December 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	86.50	CARE BB+ / CARE A4 (RWN)	Downgraded from CARE BBB / CARE A3; Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Manohar Lal Sarraf and Sons Jewellers Pvt Ltd (MLSJ) factors the ongoing dispute between the two directors of the company which has escalated to an extent that it has led to instances of overdrawing in working capital limits with one of the lenders over the past few months. As a fallout of this heightened dispute, there have been limited credits maturing with the aforesaid working capital lender, which is being managed jointly by the two directors having dispute. While most of credits are being routed through other lenders under the multiple banking arrangement, the conduct of account with timely credits and debt servicing may shall remain critical from credit risk perspective. The ratings are further constrained by leveraged financial risk profile aggravated by continuous withdrawal of unsecured loans by the directors in recent past, higher reliance on external debt with near full working capital utilization, gold price variation risk associated with the high level of stock in hand and presence in a highly fragmented Gems & Jewellery (G&J) industry. The ratings, however, derive comfort from moderate operational performance during FY24 (refers to the period from April 01 to March 31) coupled with increasing profitability margins, promoters' extensive experience in the jewellery retail business coupled with established track record of operations.

The ratings continue to be on rating watch with negative implications owing to the ongoing dispute which has reached an impasse whereby the division of business looks imminent and exact implication on the operational performance, banking conduct and financial risk profile will remain a key monitorable. CARE will continue to monitor the developments in this regard and will take a view on the ratings, once the exact implications of the above on the credit profile and business operations of the company is clear.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Amicable resolution of the dispute amongst the directors with improved liquidity.
- Increase in scale of operations with PBILDT margins (Profit Before Interest, Lease Rental, Depreciation and Taxation) above 9% on sustained basis.
- Improvement in operating cycle below 130 days leading to lower dependence on external borrowing on a sustained basis.

Negative factors

- Escalating ongoing dispute among directors adversely impacting financial performance, liquidity and banking conduct.
- Any liquidity constraint or adverse impact on business operations due to ongoing dispute among the promoter directors.
- Lower demand for gold jewellery and lower footfall leading to reduction in scale and weak liquidity going forward.
- Deterioration in capital structure with overall gearing above 1.20x on a sustained basis.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of key rating drivers:

Key weaknesses

Risk related to division of business among the directors: The company is presently managed by three brothers Mr. Sudhir Singhal, Mr. Prabhat Shekhar and Mr. Himanshu Shekhar. It was originally established as a partnership firm named as Raghu Nandan Manohar Lal Sarraf & Sons Jewellers (RNM) in 1930. Currently, the company operates five showrooms: three in New Delhi and two in Uttar Pradesh. Of these, two showrooms are managed by Mr. Himanshu Shekhar, two by Mr. Prabhat Shekhar, and one showroom managed by Mr. Sudhir Singhal. There is an ongoing dispute between two directors Mr. Prabhat Shekhar and Mr. Himanshu Shekhar. Although, each brother managing different showroom is availing the bank limits from

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

different banks. However, a shared banking relationship exists between the two directors, Mr. Prabhat Shekhar and Mr. Himanshu Shekhar. The ongoing dispute between the two brothers has led to poor coordination in managing timely interest payments, resulting in operational inefficiencies and multiple instances of overdrawing in the working capital limits with one of the lenders which were regularised within 28 days. Arbitration proceedings have been initiated to resolve the dispute, and the matter is currently under process. As per the statutory auditor, the dispute is in their personal capacity, there is no arbitration between the company and the said two individuals, meaning thereby the company is nowhere party of the said litigation/arbitration. However, despite this, the arbitrator has issued an order staying the implementation of resolutions made during in the board meeting. The company, disagreeing with the arbitrator's decision, has filed an appeal under Section 37 of the Arbitration & Conciliation Act 1996. Further, the pending litigation may impact the financial position of the company. The escalated dispute, however has reached a stage where division of businesses and stores looks imminent.

Deterioration in financial risk profile: The overall gearing ratio of the company has deteriorated to 1.25x as on March 31, 2024, as against 0.77x as on March 31, 2023. This deterioration is primarily driven by the reclassification of unsecured loans as debt. Previously, these unsecured loans were subordinated to the bank loan and treated as quasi-equity, which had bolstered the net worth base in line with the stipulated condition by the lenders towards non withdrawal of the unsecured loans to the tune of Rs.41.74 crore till the tenor of the bank facility. However, as per the latest sanction, aforesaid stipulation has been removed by the lender and unsecured loan of Rs.8.39 crore has also been withdrawn by the directors in FY24. Further, as a result of reclassification of unsecured loan, the total debt has increased to Rs.118.82 crore as on March 31, 2024 as against Rs.89.94 crore as on March 31, 2023. The company has recorded further withdrawal of unsecured loan of Rs.6.69 crore during H1FY25 (refers to the period April 01, 2024, to September 30, 2024).
Although, owing to increasing profitability, the debt coverage indicators though slightly improved but remained moderate as marked by PBILDT interest coverage and TDGCA (Total Debt to Gross Cash Accruals) of 2.75x (PY:2.39x) and 6.35x (PY: 6.99x) in FY24 respectively.

Price variation risk associated with the high level of stock in hand: The company specializes in the manufacturing and retailing of gold jewellery. Gold prices have shown volatility due to fluctuations in demand and supply, as well as changes in foreign currency exchange rates. However, the company follows the inventory replenishment method (i.e., purchasing the same quantity of gold as is sold during the day) for managing the risk associated with volatility in gold prices.

Highly competitive and fragmented G&J industry: The retail jewellery sector in India is highly fragmented and fiercely competitive, with numerous organized and unorganized players. This market is largely dominated by region-specific, family-managed entities. Although 'MLSJ' is a well-established brand in Delhi-NCR, it faces significant competition from other regional players, which could impact its profit margins. Sustained growth in volumes as a result of opening of new store in the key market amidst presence of renowned brands will be a key monitorable.

Key strengths

Improvement in profitability albeit stagnant scale of operations during FY24: The scale of operations of the company has remained almost stagnant as marked by TOI (Total Operating Income) of Rs.462.64 crore (PY: Rs.475.17 crore). However, the company was able to improve the profitability margins as marked by increase in PBILDT margin to 7.79% in FY24 (PY: 6.21%), mainly on account of higher realization driven by increase in making charges by the company. Consequently, the PAT margin also improved to 3.77% in FY24 (PY: 2.37%).
During H1FY25, the company has reported TOI of Rs.213.17 crore with increase in PBILDT margin to 9.45%.

Promoters' extensive experience: MLSJ is promoted by Mr. Sudhir Singhal, Mr. Himanshu Shekhar and Mr. Prabhat Shekhar who are third generation entrepreneurs, who are also supported by other family members. Currently, Mr. Himanshu Shekhar oversees operations at the showrooms in Indirapuram and South Extension. Mr. Prabhat Shekhar is responsible for managing the showrooms in Preet Vihar and Defence Colony, while Mr. Sudhir Singhal manages Noida showroom.

Established track record of operations: MLSJ commenced operations with a single retail store in Meerut in 1930 as a traditional family jeweller with an established track record of more than nine decades. Over the years, operations have been expanded and currently the company operates 5 showrooms spread across Delhi NCR. Further, its showrooms are located at prime locations (Indirapuram, Noida, South Extension, Preet Vihar, Defence Colony), thereby enabling the company to maintain healthy footfall.

Liquidity: Stretched

The liquidity position of the company remains stretched as marked by high reliance on working capital limits with near full utilization for the trailing 12 months ended November 2024. Further, full utilisation, low churning & lack of coordination for timely interest servicing led to several instances of overdrawing of limits (maximum up to 28 days) with one common lender between the two brothers. Further, continuous withdrawal of unsecured loans by the directors since past two years is also adversely impacting the liquidity profile of the company. However, the company has sufficient operational cash flow, with projected gross cash accruals to the tune of Rs.19.09 crore in FY25 as against the scheduled debt repayment of Rs.13.81 crore in FY25 (Term loan of Rs.3.23 crore and unsecured loan ~10.58 crore) along with free cash and bank balance to the tune of Rs.2.38 crore as on September 30, 2024. Furthermore, the company is not planning to incur any capex over the medium term.
However, any cashflow mismatch due to ongoing dispute between the two directors keep the liquidity vulnerable.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Retail](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

Incorporated in 2003, MLSJ is engaged in manufacturing and retailing of 18 Karat (K) and 22 K gold jewellery, diamond studded gold jewellery, pearls and precious stones studded gold jewellery. The company is promoted by Mr. Sudhir Singhal, and Mr. Himanshu Shekhar. It was originally established as a partnership firm named as Raghu Nandan Manohar Lal Sarraf & Sons Jewellers (RNM) in 1930. At present, it has five showrooms located in Delhi-NCR.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	475.17	462.64	213.17
PBILDT	29.51	36.05	20.14
PAT	11.26	17.45	14.61
Overall gearing (times)	0.77	1.25	0.99
Interest coverage (times)	2.39	2.75	4.01

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

CareEdge RATINGS

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	3.50	CARE BB+ / CARE A4 (RWN)
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	83.00	CARE BB+ / CARE A4 (RWN)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	3.50	CARE BB+ / CARE A4 (RWN)	1)CARE BBB / CARE A3 (RWN) (03-Apr-24)	1)CARE BBB; Stable / CARE A3 (05-May-23)	1)CARE BBB; Stable / CARE A3; ISSUER NOT COOPERATING* (28-Mar-23) 2)CARE BBB; Stable / CARE A3 (05-Apr-22)	1)CARE BBB; Stable / CARE A3 (CW with Negative Implications) (03-Jun-21) 2)CARE BBB; Stable / CARE A3 (01-Apr-21)
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	83.00	CARE BB+ / CARE A4 (RWN)	1)CARE BBB / CARE A3 (RWN) (03-Apr-24)	1)CARE BBB; Stable / CARE A3 (05-May-23)	1)CARE BBB; Stable / CARE A3; ISSUER NOT COOPERATING* (28-Mar-23) 2)CARE BBB; Stable / CARE A3 (05-Apr-22)	1)CARE BBB; Stable / CARE A3 (CW with Negative Implications) (03-Jun-21) 2)CARE BBB; Stable / CARE A3 (01-Apr-21)

*Issuer did not cooperate; based on best available information.
LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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