

## Shree Ganesh Jewellers Limited

March 31, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	21.60 (Reduced from 24.00)	CARE B+; Stable (Single B Plus; Outlook: Stable )	Reaffirmed
<b>Total Bank Facilities</b>	<b>21.60</b> <b>(Rs. Twenty-One Crore and Sixty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating drivers

The rating assigned to the bank facilities of Shree Ganesh Jewellers Limited (SGJL) continues to be constrained by the small scale of operations and elongated operating cycle. The rating is further constrained by the weak debt coverage indicators, geographical concentration risk and competition from players in the organised and the unorganised sectors. The rating, however, derives strength from the experienced promoters, long track record of operations with an established brand in the Ludhiana (Punjab) market and comfortable PBILDT margins.

### Rating Sensitivities

#### Positive Factors

- Sustainable improvement in the scale of operations of the company to over Rs. 50 cr. in medium term.
- Consistent improvement in gross current asset days to below 300 days in the medium term.

#### Negative Factors

- PBILDT margins falling below ~10% on a sustained basis.
- Any major debt funded capex or increase in working capital borrowings resulting in deterioration of overall gearing to above 2x.
- Gross current asset days exceeding above 900 days on a consistent basis.

### Key Rating Weaknesses

**Small scale of operation:** Though the scale of operations increased by ~14% in FY20, on a year-on-year basis, it continued to remain small. In 11MFY21 (Prov.), the company has achieved a total operating income of Rs. 14.68 crore which declined by ~20% on a y-o-y basis from Rs. 18.22 cr. achieved in 11MFY20 (Prov.).

**Weak debt coverage indicators:** The overall gearing ratio of the company stood comfortable at 0.95x as on March 31, 2020 (PY: 1.03x). The total debt to GCA ratio continued to remain weak, though improved to 45.61x, as on March 31, 2020 from 87.94x, as on March 31, 2019. The interest coverage ratio of the company also remained weak at 1.18x in FY20 (PY: 1.10x).

**Geographical concentration risk:** SGJL has a single showroom located in Ludhiana (Punjab) and sells jewellery under its own brand name- 'Ganpati Jewellers'. The company also has a manufacturing unit located at Ludhiana (Punjab) where it manufactures bangles and does casting work. SGJL also gets the jewellery manufactured through contract manufacturers. Since the operations of the company are highly concentrated in the Ludhiana market, it substantially increases the business risk of SGJL and limits its scale of operations too.

**Fragmented nature of the industry with vulnerability of margins to gold price fluctuations:** The company faces competition from other players in the organised and unorganised sectors. Though Covid-19 pandemic had impacted the business of jewellery retailers, the long term demand is expected to remain steady led by factors such as an increasing female working class population, growing consciousness of branded jewellery and increasing purchasing power. The prices of gold have experienced high volatility in the past. Therefore, any adverse change in prices of the same is likely to have a significant impact on SGJL's margins. However, the company tries to somewhat mitigate this risk by adopting a regular inventory replenishment policy.

### Key Rating Strengths

**Experienced promoters and long operational track record:** SGJL is running the retail store in Ludhiana for more than two decades. All the directors in the company have vast experience in varied fields. The directors are also running other companies including 'Deepak Fasteners Limited (DFL)', which is engaged in the manufacturing and export of fasteners since 1990 and 'Deepak Fibres Ltd' which is engaged in the manufacturing/trading of clothes/fabrication clothes since 1997. In 1997, the

directors of DFL decided to diversify from their main line business of manufacturing of fasteners, and entered into the jewellery business. Over the period, the directors have managed to establish a strong brand image of SGJL in the Ludhiana market.

**Comfortable profitability margins though declined in FY20:** The PBILDT margins of the company stood comfortable at 19.02% in FY20. The same, however, declined marginally from 20.30% in FY19 on account of lower income derived from sale of designer jewellery on a y-o-y basis which is associated with higher margins (~72% in FY20 compared to ~89% in FY19).

**Liquidity: Stretched-** The working capital cycle of the company stood elongated at ~25 months, as on March 31, 2020, on account of elongated inventory days. The company has to maintain high level of inventory of jewellery at the showroom for increased visibility to the customers which has led to elongated average inventory days. Due to which, the quick ratio of the company stood low at 0.05x, as on March 31, 2020 (PY: 0.01x). The current ratio of the company, however stood at 1.44x, as on March 31, 2020 (PY: 1.32x). The company had free cash & bank balance of only Rs.0.10 Cr., as on March 31, 2020. The average working capital remained almost fully utilized for the last 12 months period ended February-21. The company does not have any major capex plans in the near future. Further, the company had nil term debt obligation outstanding, as on March 31, 2020, with no repayment obligation in FY21.

**Analytical Approach:** Standalone.

#### **Applicable criteria**

[Liquidity analysis of Non-financial sector entities](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on default recognition](#)

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

[Rating Methodology- Organized Retail Companies](#)

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

#### **About the Company**

SGJL, incorporated in the year 1997, is engaged in the business of manufacturing and trading of gold jewellery, diamond/precious stones, gold coins, etc. The company sells its jewellery and precious stones to retail customers at its showroom located at First Mall, Mall Road, Ludhiana under the brand name of 'Ganpati Jewellers'.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	17.41	19.88
PBILDT	3.53	3.78
PAT	0.21	0.37
Overall gearing (times)	1.03	0.95
Interest coverage (times)	1.10	1.18

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

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

**Complexity level of various instruments rated for this company:** Annexure 4

#### **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	-	-	-	21.60	CARE B+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	21.60	CARE B+; Stable	-	1)CARE B+; Stable (13-Mar-20)	1)CARE B+; Stable (29-Mar-19) 2)CARE B+; Stable (06-Apr-18)	-

**Annexure-3: Detailed explanation of covenants of the rated facilities:** Not applicable

**Annexure 4: Complexity level of various instruments rated for this Firm**

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](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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