

## Bhola Nath Zaveri Jewellers Private Limited

May 18, 2018

### Rating

Bank Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	6.60	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
<b>Total facilities</b>	<b>6.60</b> <b>(Rs. Six Crore Sixty Lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rational and key rating drivers

The rating assigned to the bank facilities of Bhola Nath Zaveri Jewellers Private Limited (BZJ) *arise primarily constrained by small and fluctuating scale of operations with low net worth base, low profitability margins, leveraged capital structure and weak coverage indicators. The rating is further constrained by elongated inventory holding period, vulnerability of margins to gold price fluctuations and competition from various organized or unorganized players with unfavorable supply outlook. The rating, however, draws comfort from the experienced promoters and favorable location of its showroom. Going forward, the ability of the company to manage raw material price volatility risk along with improvement in profitability margins and capital structure shall be the key rating sensitivity.*

### Key description and key rating drivers

#### Key rating weakness

**Small and fluctuating scale of operations with low net worth base:** The scale of operations stood small marked by total operating income and gross cash accruals of Rs.24.93 crore and Rs.0.24 crore respectively during FY17 (FY refers to the April 1 to March 31). Moreover, the total operating income of the company declined marginally in FY16 then registered growth in FY17. Furthermore, the company's net worth base was relatively small at Rs.3.38crore as on March 31, 2017. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. The company has achieved total operating income of ~Rs.22.00 crore in 10MFY18 (refers to the period April 1 to January 31; based on provisional results).

**Low profitability margins, leveraged capital structure and weak coverage indicators:** The profitability margin of the company has remained low for the past three financial year's i.e. FY15-FY17 owing to highly fragmented and competitive nature of business. Further, high interest burden on its bank borrowings also restricts the profitability of the firm. Furthermore, the operating margins are also associated with the designing aspect of the jewellery. Normally designer jewellery fetches normally high margins. PBILDT and PAT margin stood low at 5.78% and 0.38% respectively in FY17. The capital structure of the company stood leveraged on account of high dependence on external borrowing to meet the working capital requirements coupled with low net worth base. As on last balance sheet date of last 3 financial years (FY15-FY17), overall gearing stood at around ~2.45x. Also, the coverage indicators as marked by interest coverage and total debt to GCA stood weak on account of low profitability and high debt levels. Interest coverage and total debt to GCA stood at 1.27x and 31.75x for FY17.

**Elongated inventory holding period:** The operating cycle of the company remained high at 121 days attributable to high inventory holding period of 129 days for FY17. Being a jewelry retailer, it is critical for BZJ to provide a wide range designs to its customers. These results in significant finished goods inventory leading to high working capital intensity of business operations. The company gives a credit period of around 2-3 months to its wholesaler's customers and sells on cash basis to retail customers. Also, the company received similar credit period from its suppliers. The working capital limits remained around 90% utilized for the 12 months ended January 2018.

**Vulnerability of margins to gold price fluctuations:** 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 margins of the players in the G&J industry. Further, the high price gold can also have an adverse impact on the demand for jewellery, thereby exposing

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

the company to risk of decline in sales volume. The risk is more evident now that the prices has registered considerable volatility and could leave the company carrying costly inventory in case of sudden decline in prices.

**Competition from various organized or unorganized players and unfavorable supply outlook:** BZJ operates in the Gems & Jewellery (G&J) industry, which is a fragmented industry with a high level of competition from both the organized and unorganized sector. Further, with presence of various players, the same limits bargaining power which exerts pressure on its margins.

#### **Key rating strengths**

**Experienced promoters and long track record of operations:** Bholanath Zaveri Jewellers Private Limited (BZJ) was incorporated in 2006 and is currently being managed by Mr. Sushil Kapoor along with Mr. Dhananjay Kapoor and Ms. Charu Kapoor. Mr. Sushil Kapoor is a graduate and had more than 3 decades of experience in the business through this entity and Zaveri Jewellers (ZJL), however, Mr. Dhananjay Kapoor and Ms. Charu Kapoor are post graduates and have 7 years and 5 years of experience respectively. BZJ has considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

**Favorable location of showroom:** BZJ has its showroom located in Karol Bagh (Central Delhi) and the market is known for whole sale trading jewelry business in New Delhi. The store is located in prime area which ensures the higher probability of footfall in its showroom, thereby, ensuring a good customer base for the company.

#### **Analytical approach-** Standalone

#### **Applicable criteria**

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

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

[Rating Methodology - Wholesale Trading](#)

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

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

#### **About the company**

Delhi-based Bholanath Zaveri Jewellers Private Limited (BZJ) (CIN- U36911DL2006PTC145029) was incorporated in 2006. The company has succeeded an erstwhile partnership firm Zaveri Jewellers. The company is currently being managed by Mr. Sushil Kapoor, Mr. Raj Kapoor and Mr. Ashok Kapoor. The company is engaged in manufacturing, wholesale and retail trading of gold, diamond and silver and jewellery. The company operates through its showrooms located in Karol Bagh, Delhi.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income	21.81	24.93
PBILDT	1.43	1.44
PAT	0.08	0.10
Overall gearing (times)	2.49	2.29
Interest coverage (times)	1.37	1.27

A: Audited

**Status of non-cooperation with previous CRA –** CRISIL has reaffirmed its rating vide press release dated September 27, 2017 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

**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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**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	-	-	-	6.60	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (28-Nov-17)	1)CARE B+; Stable (06-Mar-17)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)Withdrawn (28-Nov-17)	1)CARE A4 (06-Mar-17)	-
3.	Fund-based - LT-Cash Credit	LT	6.60	CARE B+; Stable	-	-	-	-

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