Khanna Jewellers Private Limited

July 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	76.09	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable; Issuer not Cooperating (Double B Minus; Issuer not Cooperating)
Total Facilities	**76.09 (Rupees seventy six crore and nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Khanna Jewellers P Ltd (KJPL) is primarily constrained on account of its presence in the highly competitive and fragmented gems & jewellery industry with vulnerability of margins to fluctuation in the price of raw material and working capital intensive nature of operations.

The rating, however, continues to derive strength from experienced partners with established track record, customized jewellery designing and favorable showroom location with healthy footfall.

Rating Sensitivities

Positive Factors

- Increase in scale of operations above Rs. 500 crore on a sustained basis with improved profitability.
- Consistent improvement in ROCE above 7.00% on sustained basis.

Negative Factors

- Decline in scale of operations below Rs. 350 crore.
- Decline in PBILDT margin below 3.50% and debt coverage indicators below 2x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of operations: Being into jewellery retail business, it is imperative for KJPL to provide a wide range of designs to its customers. This results in significant inventory of finished goods leading to high working capital intensity (217 days in FY20 – refers to the period from April 1 to March 31). The average fund based utilization of working capital limits stood low at around 56% for 12 months ended May 2020, mainly since the company uses its interchangeable non-fund based limits to procure gold on lease. The non-fund based utilization of the company for 12 months ended May 2020, has been close to 95%.

Growth in scale of operations with low profitability margins: The scale of operations of the company increased from about Rs.420.00 Cr in FY18 to ~Rs.473.28 Cr in FY19 but it has reduced to ~Rs.434.12 Cr in FY20 mainly on account of reduction in sales at the end of the Q4FY20 (refers to the period from January 1 to March 31) due to the weak demand as a result of outbreak of Covid-19 pandemic. The PBILDT margin remained low at 4.53% (PY: 4.46%) in FY20 and the marginal improvement was driven by increased realizations in line with higher gold prices. Furthermore, the PAT margin of the company increased to around 1.91% (PY: 1.41%) due to decline in interest cost as a result of reduction in bank borrowing which was supported by interest free unsecured loans availed from related parties during FY20 to the tune of around Rs.20 crore (as per provisional results). The return on capital employed continues to remain low at 5.65% during FY20 owing to higher funds being blocked towards working capital and low operating margins.

Presence in a highly competitive and fragmented G&J industry: The G&J industry in India is characterized by the presence of a large number of organized and unorganized players. Total Indian jewellery market is second largest in the world and is expected to reach around Rs. 6.99 lakh crore by the year 2025 and is mainly dominated by the unorganized jewellery segment, which commands around 55% of the total market size. However, the share of jewellery retail sector (comprising national and regional retail chains) is increasing at approximately 15% y-o-y basis and is estimated at Rs.1,92,500 crore. (Source: All India Gems &Jewellery Trade Federation). Going forward as gems and jewellery products are discretionary in nature, consumer demand is expected to remain muted for the short term. However, long term prospects remain stable owing to growing consciousness of branded jewellery, increasing purchasing power in the Tier 2 & 3 cities, growing population of working females and increasing preference towards diamond jewellery.

Key Rating Strengths

***Experienced Promoters with long track record of operations*:** KJPL was started as a partnership firm in 1953 as "Khanna Jewellers" with a single showroom in Karol Bagh, New Delhi by Mr. Wazir Chand Khanna with his three sons Mr. Kewal Krishna Khanna, Mr Raj Kishan Khanna and Mr. Vijay Khanna. Presently the company is managed by Mr. Raj Kishan Khanna, Mr. Vijay Khanna and Mr. Manoj Khanna. The promoters have more than 3 decades of experience in the gems & jewellery business. Apart from KJPL, the promoters also have presence in jewellery export and retail (K.K Export and Khanna Jewellers Regd.) and real estate (KVK Buildtech Ltd and Neelanchal Leasing Ltd). The company has shown steady growth over the years.

Customized jewellery designing facility: KJPL manufactures its jewellery through job workers (karigars) based out of various cities including Kolkata, Gujarat, Mumbai, Surat, Jaipur. The company has a team that specifically looks into the designing aspects and types of jewellery to be made based on the latest trends and specifications. While gold jewellery is manufactured from locations as mentioned above, diamond jewellery is manufactured from Mumbai and Surat.

Favourable showroom location: KJPL's operates 2 retail showrooms which are favorably located at Karol Bagh (Central Delhi) and South extension (South Delhi). The showrooms are present at prime locations in the markets known for jewellery in New Delhi thereby enabling KJPL to maintain healthy footfall. Apart from domestic sales, the company is also engaged in wholesale exports of its gold and diamond jewellery to large retail jewellers. Further, the company has a diversified customer base, with top 10 customers contributing only 19.80% of total revenue.

COVID-19 impact: The Company's showrooms have remained shut during March 23, 2020 till June 30, 2020. KJPL has been able to meet its fixed monthly overheads of around less than a crore which includes employee salaries and rental expenses through available free cash balance and available working capital limits. The factors adversely affecting demand in the gems and jewellery segment include global economic slowdown, reduction in disposable income and discretionary spend. The high volatility in prices of precious metals and falling consumer sentiments has further weakened the end-user demand. Under the current scenario, it remains to be seen whether the festive and wedding season is able to resurrect the demand for jewellery in the current year to recoup the loss of revenue to some extent. The company has availed moratorium on the banking limits up to August 2020 in line with the Covid relief package announced by the RBI.

Liquidity: Adequate

The company enjoys adequate liquidity marked by steady gross cash accruals to the tune of around 8 crore in the recent past against annual repayment obligation to the tune of Rs.1.15 crore. The company's average working capital utilization stood low at around 50% during the 12-month period ended May 2020. The free cash balance as on March 31, 2020 as per provisional figures stood at around Rs.26 crore. The operating cycle of the company is high to the tune of 217 days in FY20 which was primarily on account of high inventory days to the tune of 240 days.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology- Retail Companies
Rating Methodology- Manufacturing Companies
Rating Methodology- Liquidity Analysis of Non-financial Sector entities

About the Company

Khanna Jewellers Pvt. Ltd. (KJPL) is part of the Khanna group, which was founded in 1953 by Mr. Wazir Chand Khanna with his three sons Mr. Kewal Krishna Khanna, Mr Raj Kishan Khanna and Mr. Vijay Khanna. The group started operating as a partnership firm from its present-day main showroom at Karol Bagh, New Delhi, which was later converted into a private limited company in October 1973. The company presently has two showrooms – at Karol Bagh and South Extension. KJPL deals in the wholesaling, retailing and export of gold and diamond studded jewellery (26.23% of total operating revenue). The company was also engaged in trading of gold bullion; however the same has been discontinued from FY16, given the low profitability margins in trading.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	473.28	434.13
PBILDT	21.15	19.68
PAT	6.94	8.32
Overall gearing (times)	0.93	0.88
Interest coverage (times)	2.53	2.88

A: Audited, Prov. - Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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-Term Loan	-	-	December 2026	6.09	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	70.00	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 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-Term Loan	LT	6.09	CARE BB; Stable; Revised from CARE BB-; Stable; Issuer not Cooperating*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (17-Sep-19)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (05-Apr-18)	1)CARE BB+; Stable (31-Oct-17) 2)CARE BB+; Stable (03-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	70.00	CARE BB; Stable	-	-	-	-

*Issuer did not cooperate; Based on best available information

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

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.*

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