

January 9, 2014

CARE ASSIGNS 'CARE BBB' AND REAFFIRMS 'CARE A3' RATINGS TO THE BANK FACILITIES OF MANOHAR LAL SARRAF & SONS JEWELLERS PVT LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	24	CARE BBB (Triple B)	Assigned
Short-term Bank Facilities	9 (reduced from Rs.35 crore)	CARE A3 (A Three)	Re-affirmed
Total Facilities	33		

Rating Rationale

The rating continues to derive strength from the promoters' extensive experience and demonstrated support, established track record of operations in the retail jewellery business and moderate financial risk profile characterized by moderate profitability margins and overall gearing with comfortable debt service coverage indicators.

However, the ratings are constrained by the working capital intensive nature of operations due to high inventory requirement resulting in an elongated working capital cycle, price variation risk associated with the high level of stock in hand and its presence in a highly fragmented and competitive Gems & Jewellery (G&J) industry. The ability of Manohar Lal Sarraf & Sons Jewellers Pvt Ltd (MLSJ) to scale up the operations and increase the profitability in a market characterized by intense competition from the organized and unorganized sector along with effective working capital management remain the key rating sensitivities.

Background

Incorporated in 2003, MLSJ is a private limited company promoted by Mr Sudhir Singhal, Mr Himanshu Shekhar and Mr Prabhat Shekhar (all of them are brothers) amongst others. MLSJ initially started operations in a showroom located in Meerut; however, in order to expand its scale of operations, the company decided to move to Delhi in 2003 by wrapping up its Meerut operations. The company has four showrooms in Delhi & NCR region, one each in Defence Colony, PreetVihar, Pitampura and another in Noida. The latest Pitampura showroom was opened in October 2013. MLSJ procures raw gold, loose stones as well as readymade jewellery sets. The company gets most of the jewellery manufactured on job-work basis. MLSJ is in retailing and designing of gold jewellery, diamond-studded gold jewellery, pearls and precious stones studded gold jewellery and gold coins.

MLSJ has two group concerns, namely, M/s Manohar Lal Sarraf & Sons Pvt Ltd (MLSS) and M/s M L Creations (MLC). In FY13 (refers to the period April 1 to March 31), MLSJ achieved a total operating income of Rs.126.41 crore with a PAT of Rs.4.71 crore as against a total operating income of Rs.86.95 crore with a PAT of Rs.2.80 crore in FY12. In H1FY14, the company achieved a total income of Rs.68.45 crore and PBT of Rs.3.65 crore.

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¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

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