

## Madhuram Jewellers

October 12, 2020

### Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.00	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ;ISSUER NOT COOPERATING*) on the basis of best available information
<b>Total Facilities</b>	<b>6.00</b> (Rs. Six Crore Only)		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated September 30, 2019 placed the ratings of Madhuram Jewellers (MJ) under the 'issuer non-cooperating' category as Madhuram Jewellers (MJ) had failed to provide information for monitoring of the rating. Madhuram Jewellers (MJ) continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated October 05, 2020, October 06, 2020 In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further banker could not be contacted.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

The rating has been revised by taking into account non-availability of information and no due-diligence conducted due to non-cooperation by Madhuram Jewellers (MJ) with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk. Further, the ratings continue to remain constrained by its modest scale of operations with low net worth base, leveraged capital structure and elongated operating cycle. The rating is further constrained by vulnerability of margins to gold price fluctuations and competition from various organized and unorganized players. The ratings, however, continues to draw comfort from experienced management and moderate profitability margins.

#### Detailed description of the key rating drivers

*At the time of last rating on September 30, 2019 the following were the rating weaknesses and strengths:*

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

##### Modest scale of operations with low net worth base

The scale of operations has remained modest marked by a total operating income and gross cash accruals of Rs.15.84 crore and Rs.0.51 crore, respectively, during FY18 (FY18 refers to period April 1 to March 31). MJ's scale of operations remained low but has shown compounded annual growth rate of 53.76% during the period FY16-FY18. The firm shifted its premises to main Civil Lines area in October, 2017, thereby leading to higher orders received from the existing customer base coupled with newly added customer base. Furthermore, the firm's net worth base was relatively small and stood at Rs.1.90 crore as on March 31, 2018. The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

##### Leveraged capital structure

The capital structure of the firm remained leveraged as marked by overall gearing ratio of 6.85x as on March 31, 2018. Furthermore, the same deteriorated from 3.04x as on March 1, 2017 mainly on account of infusion of funds by the

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

\*Issuer did not cooperate; Based on best available information

promoters in the form of unsecured loans coupled with higher utilization of working capital limits on the balance sheet date

#### **Elongated operating cycle**

The operating cycle of the firm stood elongated at 172 days for FY18. Due to change in location of its premises and consequently, additional customer base, the firm had to stock variety of jewellery pieces for display and caters to immediate demand of the customers. The same resulted into average inventory holding day stood high at 234 days during FY18. The firm allows an average credit period of around 5-10 days to its customers. Also, the firm receives credit period of around 70-80 days from its suppliers, the same resulted into average creditor period of 70 days in FY18. Further, the liquidity of the firm has marginally improved as marked by current ratio of 0.98x in FY18 as against 0.96x in FY17.

#### **Vulnerability of margins to gold price fluctuations**

The prices of gold have experienced high volatility in the past one year. 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. However, the vast experience of the promoters of MJ coupled with their policy of inventory replenishment model helps it in managing this risk to some extent. Further, the high price gold can also have an adverse impact on the demand for jewellery, thereby exposing the firm to risk of decline in sales volume.

#### **Competition from various organized or unorganized players and unfavourable supply outlook**

The firm operates in the Gems & Jewelry (G&J) industry, which is a fragmented industry with a high level of competition from both the organized and unorganized sector. Currently, the organized retailers account for a mere 5-6% of the total jewelry retail market. This is primarily because of the buyers' preference and trust in their neighborhood goldsmith. Even the standardization of designs is not possible due to varying local tastes. It is estimated that there are about 15,000 players across the country in the gold processing industry, 450,000 goldsmiths spread across the country and more than 6,000 players in the diamond-processing industry.

#### **Key Rating Strengths**

##### **Experienced promoters**

The firm is managed by Mr. Vineet Agarwal. Mr. Vineet Agarwal who is a graduate by qualification has around a two and half decade of experience in the industry through his association with this firm.

##### **Moderate profitability margins**

The profitability margins are directly associated with contribution of sales from different type of jewellery in that particular financial year. Normally high end jewellery (designer jewellery) and diamond trading fetch better margins. PBILD and PAT margin of the firm stood moderate at 6.32% and 2.61% respectively in FY18.

#### **Analytical Approach: Standalone**

##### **Applicable criteria**

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

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's Rating Methodology - Wholesale Trading](#)

##### **About the Company**

Moradabad-UP based Madhuram Jewellers (MJ) was incorporated in October, 1997 by Mr. Vineet Agarwal. The firm is engaged in wholesale and retail trading of gold jewellery (necklaces, earrings, rings, pendants and bangles). Also, the firm is engaged in wholesale trading of diamonds. The firm primarily gets repair ornaments themselves on small scale. The main traded good is gold and diamond which it procures local wholesalers like R.K. Stockholding Pvt. Ltd (Delhi), Shri Giriraj Jewellers (Mathura), Fantasy Dimaond Cuts (Mumbai) etc mainly based in Delhi, Mumbai, UP.

Non BFSI

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	7.05	15.84
PBILDT	0.31	1.00
PAT	0.17	0.41
Overall gearing (times)	3.04	6.85
Interest coverage (times)	2.26	2.04

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History (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-Cash Credit	-	-	-	6.00	CARE B-; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

#### 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	6.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (30-Sep-19) 2)CARE B+; Stable (04-Apr-19)	-	1)CARE B+; Stable (21-Mar-18)

\*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / 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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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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