

Nathella Sampath Jewelry Private Limited

August 2, 2017

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--------------------------------------|--|--|------------------------|
| Long-term/Short-term Bank Facilities | 355 | CARE BBB/CARE A3; ISSUER NOT COOPERATING* [Triple B/A Three; ISSUER NOT COOPERATING*] | Issuer Not Cooperating |
| Total Facilities | 355 (Rs. Three hundred and fifty five crore only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Nathella Sampath Jewelry Private Limited (NSJPL) to monitor the rating vide e-mail communications dated July 6, 2017; July 13, 2017; July 21, 2017; July 24, 2017; July 25, 2017 and July 27, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines CARE's rating on NSJPL's bank facilities will now be denoted as CARE BBB/CARE A3; ISSUER NOT COOPERATING.

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

Detailed description of the key rating drivers

At the time of last rating on October 25, 2016 the following were the rating strengths and weaknesses:

Key Rating Strengths

Experienced promoters and established presence of 'Nathella' brand in the Chennai market: The promoters of NSJPL possess vast experience in the line of business with the Nathella family engaged in gold bullion and jewellery trading business in Chennai, Tamil Nadu from the 1920s on a small scale. NSJPL enjoys an established presence in Chennai especially in the middle class society and operates through seven retail showrooms in Tamil Nadu.

Stable Income levels in FY16 with continued higher contribution from wholesale business: The company's total income remained stable at Rs.1,428 crore during FY16 as against Rs. 1415 crore in FY15. The muted growth was on account of impact of the jewelers strike, change in Government regulations and unprecedented floods in Chennai during FY16. The wholesale segment continued to contribute a major portion of the company's revenues with about 72% of net sales for FY16 (FY15: 74 %) and the retail showrooms contributed to total sales of Rs. 395 crore for FY16 as against Rs. 367 crore for FY15.

Key Rating Weaknesses

Relatively low profitability levels exposed to volatility in gold prices: NSJPL is primarily in the wholesale business and as such the wholesale business has thin profit margins and hence the profitability levels are low. The PBILDT margin remained at 4.93 % in FY16 as against 5.25 % in FY15.

Leveraged capital structure with high working capital utilisation: The company's capital structure is marked by high working capital borrowings majorly to fund its inventory. The company maintains large quantity of finished goods inventory at all showrooms to carry on retail business and for wholesale trade as well. Nevertheless, advances from customers enable the company to manage its working capital requirements to a certain extent. The operating cycle was 132 days as on March 2016 as against 120 days for March 2015 and the average working capital utilization remained high at 99.82% for 12 months ended June 2016.

Presence in fragmented industry & regulatory risks: The Gem & Jewellery industry in India is characterized by presence of large number of unorganized players with the share of organized retail sector at mere 20-25%. Jewellery demand was

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

*Issuer did not cooperate; Based on best available information

subdued during FY16 mainly due to tightening of government regulations and high gold prices. Ability of the company to sustain sales amidst dynamic regulatory environment is critical for its prospects.

Analytical approach:

Standalone

Applicable Criteria

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

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

[Criteria for short term instruments](#)

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

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

[CARE's methodology for organized retail companies](#)

About the Company

NSJPL, a Chennai-based company was incorporated on April 3, 2007 by the amalgamation of three partnership firms namely, Nathella Sampath Jewellerie, NSC Jewellers and NSC & Co. The group was promoted by Sriman Nathella Sampathu Chetty Garu in 1928 and the retail operations commenced in 1998. The company is primarily engaged in trading of gold jewellery and gold bullion which accounted for almost 98% of the income for FY16 at Rs. 1,388 crore. The company derives majority of its revenues from wholesaling of gold jewellery which contributed to 72% (FY15: 74 %) of the company's net sales in FY16.

| Brief Financials (Rs. crore) | FY15 (A) | FY16 (A) |
|------------------------------|----------|----------|
| Total operating income | 1,415 | 1,428 |
| PBILDT | 74 | 70 |
| PAT | 18 | 16 |
| Overall gearing (times) | 2.31 | 2.42 |
| Interest coverage (times) | 1.78 | 1.64 |

A: Audited

Status of non-cooperation with previous CRA:

CRISIL has suspended its rating vide press release dated June 30, 2015 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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/ ST-Cash Credit | - | - | - | 55.00 | CARE BBB / CARE A3; ISSUER NOT COOPERATING* |
| Fund-based/Non-fund-based-LT/ST | - | - | - | 300.00 | CARE BBB / CARE A3; ISSUER NOT COOPERATING* |

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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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT/ ST-Cash Credit | LT/ST | 55.00 | CARE BBB / CARE A3; ISSUER NOT COOPERATING* | - | 1)CARE BBB / CARE A3 (25-Oct-16) | 1)CARE BBB / CARE A3 (28-Aug-15) 2)CARE BBB- / CARE A3 (15-Apr-15) | - |
| 2. | Fund-based/Non-fund-based-LT/ST | LT/ST | 300.00 | CARE BBB / CARE A3; ISSUER NOT COOPERATING* | - | 1)CARE BBB / CARE A3 (25-Oct-16) | 1)CARE BBB / CARE A3 (28-Aug-15) 2)CARE BBB- / CARE A3 (15-Apr-15) | - |

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