Shree Ganesh Jewellers Limited
March 13, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	24.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	Reaffirmed
Total Facilities	**24.00 (Rs. Twenty Four crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The rating assigned to the bank facilities of Shree Ganesh Jewellers Limited (SGJL) continues to be constrained by the small scale of operations and elongated operating cycle. The rating is further constrained by the weak debt coverage indicators, geographical concentration risk and competition from players in the organised and the unorganised sectors.
The rating, however, derives strength from the experienced promoters, long track record of operations with an established brand in the Ludhiana (Punjab) market and comfortable PBILDT margins.

Rating Sensitivities
Positive Factors
- Sustainable improvement in the scale of operations of the company to over Rs. 50 cr. in medium term.
- Consistent improvement in gross current asset days to below 300 days in the medium term.

Negative Factors
- PBILDT margins falling below ~9% on a sustained basis.
- Any major debt funded capex or increase in working capital borrowings resulting in deterioration of overall gearing to above 2x.
- Gross current asset days exceeding above 900 days on a consistent basis.

Detailed description of the key rating drivers
Key Rating Weaknesses
Small scale of operations: The scale of operations of the company continued to remain at a small level and almost flat in FY19 (refers to the period from April 01 to March 31) with total operating income of Rs. 17.41 cr. The same increased by a marginal ~2% on a year-on-year (y-o-y) basis from Rs. 17.01 cr. in FY18. In 11MFY20 (Prov.), the company achieved a total operating income of Rs.18.10 cr. compared to Rs. 17.33 cr. achieved in the same period last year.

Weak debt coverage indicators: The total debt to GCA ratio stood weak at 87.94x, as on March 31, 2019 (94.35x, as on March 31, 2018). The interest coverage ratio also remained at almost the same level as last year.

Geographical concentration risk: SGJL has a single showroom located in Ludhiana (Punjab) and sells jewellery under its own brand name- 'Ganpati Jewellers'. The company also has a manufacturing unit located at Ludhiana (Punjab) where it manufactures bangles and does casting work. SGJL also gets the jewellery manufactured through contract manufacturers. Since the operations of the company are highly concentrated in the Ludhiana market, it substantially increases the business risk of SGJL and limits its scale of operations too.

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 SGJL's margins. However, the company tries to somewhat mitigate this risk by adopting a regular inventory replenishment policy.

Key Rating Strengths
Experienced promoters and long operational track record: SGJL is running the retail store in Ludhiana for more than two decades. All the directors in the company have vast experience in varied fields. The directors are also running other companies including 'Deepak Fasteners Limited (DFL)', which is engaged in the manufacturing and export of fasteners since 1990 and 'Deepak Fibres Ltd' which is engaged in the manufacturing/trading of clothes/fabrication clothes since 1997. In 1997, the

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

directors of DFL decided to diversify from their main line business of manufacturing of fasteners, and entered into the jewellery business. Over the period, the directors have managed to establish a strong brand image of SGJL in the Ludhiana market.

Comfortable profitability margins though declined in FY19: The PBILDT margins of the company stood comfortable at 20.30% in FY19 however, declined marginally from 21.21% in FY18 on account of lower income derived from sale of designer jewellery on a y-o-y basis which is associated with higher margins (~89% in FY19 compared to ~95% in FY18).

Liquidity: Stretched- The working capital cycle of the company stood elongated at ~28 months as on March 31, 2019 on account of elongated inventory days. The company has to maintain high level of inventory of jewellery at the showroom for increased visibility to the customers which has led to elongated average inventory days. Due to which, the quick ratio of the company stood low at 0.01x, as on March 31, 2019 (PY: 0.02x). The current ratio of the company, however stood at 1.32x, as on March 31, 2019 (PY: 1.29x). The company had free cash & bank balance of only Rs.0.14 Cr., as on March 31, 2019. The average working capital remained almost fully utilized for the last 12 months period ended February-20. The company does not have any major capex plans in the near future. Further, the company had nil term debt obligation outstanding, as on March 31, 2019, with no repayment obligation in FY20.

Analytical Approach: Standalone.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Rating Methodology- Organized Retail Companies

About the Company
SGJL, incorporated in the year 1997, is engaged in the business of manufacturing and trading of gold jewellery, diamond/precious stones, gold coins, etc. The company sells its jewellery and precious stones to retail customers at its showroom located at First Mall, Mall Road, Ludhiana under the brand name of 'Ganpati Jewellers'.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	17.01	17.41
PBILDT	3.61	3.53
PAT	0.18	0.21
Overall gearing (times)	1.05	1.03
Interest coverage (times)	1.09	1.10

A: Audited

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-Cash Credit	-	-	-	24.00	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	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in

					2019-2020	2018-2019	2017-2018	2016-2017
1.	Fund-based - LT-Cash Credit	LT	24.00	CARE B+; Stable	-	1)CARE B+; Stable (29-Mar-19) 2)CARE B+; Stable (06-Apr-18)	-	1)CARE B+; Stable (14-Mar-17)

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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