

Shubhlaxmi Jewel Art Limited

March 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating action
Long-term Bank Facilities	6.41	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total	6.41 (Rupees Six Crore and Forty One lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale

The rating assigned to the bank facilities of Shubhlaxmi Jewel Art Limited (SJAL) is primarily constrained on account of its moderate scale of operation with moderate profit margins and working capital intensive nature of operations during FY18 (refers to the period from April 01 to March 31). The rating, further, continue to remain constrained due to its presence in highly fragmented and competitive nature of jewellery industry marked by presence of many unorganized players and risk associated with fluctuation in prices of gold and other precious metals.

The rating, however, derives strength from the vast experience of promoters in the jewellery Industry along with moderate capital structure and debt coverage indicators. The rating also takes into account SJAL's listing on SME platform of National Stock Exchange of India Limited- (NSE Emerge) during FY19.

The ability of SJAL to increase its scale of operations and improve its overall financial risk profile by improving its profitability and solvency position along with efficient working capital management are the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Weaknesses

Moderate scale of operations with moderate profit margins

During FY18 (A), the scale of operations of SJAL as marked by total operating income (TOI) remained moderate at Rs.46.83 crore, albeit exhibited a Y-o-Y growth of 8.66%. PBILDT margin of SJAL also remained moderate at 5.57% in FY18 as against 5.64% during FY17. Consequently, PAT margin of SJAL remained modest at 2.57% in FY18 as against 2.16% during FY17.

Working capital intensive operations

The liquidity position of SJAL remained working capital intensive in nature marked by moderate current ratio at 1.85 times as on March 31, 2018 as compared to 1.54 times as on March 2017. Further, the operating cycle of SJAL remained elongated at 97 days during FY18 primarily on account of high inventory holding period. Average working capital limits utilization remained high at around 95% during past twelve months period ended January, 2019. Cash and bank balance remained low at Rs.0.08 crore, while cash flow from operations remained negative at Rs.0.13 crore during FY18.

Presence in highly fragmented and competitive nature of jewellery industry marked by presence of many unorganized players

SJAL has its presence in the jewellery industry which is highly fragmented in nature with presence of numerous independent small-scale enterprises in unorganized sector and some of the large players in organized sector owing to low entry barriers, easy access to clients and suppliers leading to high level of competition. High competition in the operating spectrum and moderate size of the company limits the scope for improvement in margins and compels the company to constantly update the stock of latest and trendy ornaments so as to maintain its market share.

Risk associated with fluctuation in prices of gold and other precious metals

The prices of primary raw materials i.e. gold other precious metals are market driven and fluctuate according to global demand-supply. This might have an impact on the margins of players in gems & jewellery industry and effective management of the same would remain crucial.

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

Key Rating Strengths

Vast experience of promoters in jewellery Industry

SJAL was formed in July, 2013 as a partnership firm named Shubhlaxmi Jewellers by Mr. Narendra Chauhan and Mr. Jitendra Chauhan and subsequently got converted into public limited company in May, 2018. Mr. Narendra Chauhan and Mr. Jitendra Chauhan, both have an average experience of around two decades in the jewellery business.

Moderate capital structure and debt coverage indicators

The capital structure of SJAL remained moderate marked by overall gearing of 1.57 times as on March 31, 2018 (2.09 times as on March 31, 2017) owing to an increase in tangible net worth base led by accretion of profits to reserves. The debt coverage indicators also remained moderate marked by total debt to GCA of 6.10 years as on March 31, 2018 from 6.98 years as on March 31, 2017. Further, interest coverage ratio stood comfortable at 2.26 times during FY18 as against 2.06 times during FY17 with marginal reduction in interest and finance cost during FY18.

SJAL completed its Initial Public Offer (IPO) during November, 2018 and raised equity share capital Rs.6.51 crore. The shares of SJAL are listed on SME platform of National Stock Exchange of India Limited - (NSE Emerge).

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Bhavnagar-based (Gujarat) SJAL, erstwhile Shubhlaxmi Jewellers, was established in 2013 as partnership firm by Chauhan family and subsequently got converted into public limited company on May, 2018. SJAL is engaged into wholesale and retail business of platinum, gold and silver jewellery studded with diamond and other precious and semi-precious stones. It operates from its showroom located at Waghawadi Road, Bhavnagar (Gujarat). Further, it got listed on SME platform of National Stock Exchange of India Limited- (NSE Emerge) in November, 2018 through public issue.

SJAL outsources the manufacturing to various local artisans, post which it sells the Bureau of Indian Standards (BIS) hallmarked jewellery to wholesalers and retailers. Mr. Narendra Chauhan and Mr. Jitendra Chauhan are the key promoters of SJAL having more than two decades of experience in the jewellery business through their associate concern named Jesingbhai Jewellers in Bhavnagar, Gujarat which was established in 1971.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	43.10	46.83
PBILDIT	2.43	2.61
PAT	0.93	1.20
Overall gearing (times)	2.09	1.57
Interest coverage (times)	2.06	2.26

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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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	-	-	September, 2022	1.41	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1.41	CARE BB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB; Stable	-	-	-	-

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