

Precious Jewels Corporation

August 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Packing Credit	15.0	20.0	[ICRA]A4+; Reaffirmed
Non- fund based/ Bank Guarantee	0.05	0.0	-
Unallocated	0.0	1.0	[ICRA]A4+; Reaffirmed
Total	15.05	21.0	

Rating action

ICRA has reaffirmed short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 21.0-crore (enhanced from Rs.15.05 crore) bank facilities of Precious Jewels Corporation (PJC).

Rationale

The reaffirmed rating continues to factor in the significant experience of the promoters in the jewellery industry and established client relationships. This apart, the rating further considers the company's low indebtedness and healthy operating margins resulting in healthy debt-coverage metrics. However, the rating is constrained by the firm's long working capital cycle owing to high inventory levels and consequent high utilization levels in working capital limits. The rating is further constrained by exposure to foreign currency fluctuations along-with increased geographical concentration towards limited set of countries. ICRA also notes the risks of capital withdrawals associated with the constitution of the firm as has been witnessed over the years.

Outlook: Not applicable

Key rating drivers

Credit strengths

Strong revenue growth in FY2018– The company has registered impressive revenue growth on the back of regular increment in exports. As per the provisional results in FY2018, the export rose marginally from Rs 53.70 crore in FY2017 to Rs 74.17 crore in FY2018 as the firm explored fresh markets like Dubai (UAE). However, order book movement in current financial year has been only moderate.

Healthy profitability and debt-coverage metrics– PJC has been generating healthy operating profit over the years and in FY2018, the operating margin grew to 26.7% from 24.2% in FY2017. The net margins also increased owing to rise in forex gains and reduced interest cost on unsecured loans. However, PJC's net cash accruals exhibited lower growth with only Rs 3.2 crore owing to withdrawals mainly towards taxation and other purposes. PJC's business being mainly working capital intensive, its long-term debt levels are limited resulting in low indebtedness and healthy debt coverage metrics.

Diversified client base with reduced buyer-concentration risk – The company has marginally reduced its buyer concentration as top three buyers constitute 57% of the total exports as compare to 66% of the sales to the top three buyers in FY2017. The promoters have had an experience of more than two decades and have long standing relationships with key clients.

Credit challenges

Limited cushion in the working capital limits reflecting amid a long working capital cycle– PJC's inventory has continued to remain high. It piled up further in Q4FY2018 resulting in elongated working capital cycle. The inventory days extended from 164 days in FY2017 to 248 days in FY2018 and working capital intensity (NWC/OI) increased 47.7% in FY2017 to 61.8% in FY2018. As a result, despite recent enhancements in limits, PJC's limit utilization levels have remained very high.

Higher geographical concentration – The top three countries i.e. Hongkong, Dubai and USA together accounted for almost 90% of PJC's total exports and therefore increased the geographical concentration risk for the company. The contribution to top three countries rose from 66% in FY2016.

Exposure to forex fluctuation – PJC remains exposed to risk emanating from adverse fluctuations in foreign currency as it hedges only part of its exposure. However, ICRA notes that PJC recorded forex gains of Rs 1.55 crore in FY2018.

Risk associated with the partnership as constitution of the firm resulting in constant capital withdrawals - The partners of the company are continuously withdrawing capital, although the quantum has reduced significantly from the levels of FY2016. ICRA notes that part of the withdrawal is towards payment of Minimum Alternative Tax.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating methodology on Indian Gems & Jewellery Industry – Cut & Polished Diamonds](#)

About the company:

Incorporated in 1998 as a partnership firm, Precious Jewels Corporation (PJC) is engaged in the manufacturing of diamonds and gold jewellery and other precious and semi-precious stones. The partners of the firm have been in the business of jewellery for the past 35 years. PJC is a member of International Colored Gemstone Association (ICA), Gem & Jewellery Export Promotion Council and Indo German Chamber of Commerce and Industries. Precious Jewels Corporation (PJC) procures diamond and stones which are in raw form; these are then manufactured in machines to give it shape and are finished to be sold in national and international markets. The firm procures raw materials especially precious stones including emerald and ruby from various auctions.

In FY2017, the firm reported a net profit of Rs. 9.3 crore on an operating income (OI) of Rs. 61.0 crore compared with a net profit of Rs. 5.3 crore on an OI of Rs. 45.0 crore in the previous year. As per the provisional figures provided by PJC, it generated sales of Rs 77.7 crore in FY2018 and generated net profit of Rs 15.7 crore and total net worth of Rs 23.8 crore.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	45.0	61.0
PAT (Rs. crore)	5.3	9.3
OPBDIT/ OI (%)	21.8%	24.2%
RoCE (%)	28.7%	37.0%
Total Debt/ TNW (times)	3.1	1.8
Total Debt/ OPBDIT (times)	3.2	1.9
Interest Coverage (times)	2.4	3.8
NWC/ OI (%)	65%	48%

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
1 Packing Credit	Short Term	20.0	20.0	[ICRA]A4+	March, 2018 [ICRA]A4+; Removed from 'Issuer not cooperating' category	November, 2017 [ICRA]A4+; ISSUER NOT COOPERATING	February 2017 [ICRA]A4+; reaffirmed
2 Unallocated	Short Term	1.0	1.0	[ICRA]A4+	[ICRA]A4+; Removed from 'Issuer not cooperating' category	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+; reaffirmed

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Packing Credit	NA	NA	NA	20.0	[ICRA]A4+
	Unallocated	NA	NA	NA	1.0	[ICRA]A4+

Source: PJC

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