ICRA

January 16, 2017

# Uday Jewellery Industries Limited

| Instrument* | Rated Amount (in crore) | Rating Action |
|---|---|---|
| Fund Based Limits | 10.00 | Reaffirmed at [ICRA]BB (Stable) |
| **Total** | **10.00** | |

*Instrument Details are provided in Annexure-1

**Rating Action**

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) assigned to Rs. 10.00 crore fund based limits of Uday Jewellery Industries Limited (UJIL)[†]. The outlook on the long term rating is stable.

**Rationale**

The reaffirmation of the rating favourably factors in the healthy growth in revenues from Rs. 24.65 crore in FY2015 to Rs. 31.62 crore in FY2016 due to higher volume of sales aided by relatively lower gold prices and further to Rs. 38.67 crore in 9m FY2017 owing to increased sales made to reputed customers such as Kalyan Jewellers India Ltd. (rated [ICRA]A-(Stable)/[ICRA]A2+). The ratings continue to consider the vast experience of promoters in jewellery manufacturing and retailing business; strong presence through group associates such as Sanghi Jewellers Private Limited (rated [ICRA]BBB-(Stable)) with which the company has entered into long term manufacturing contract in September 2016 for purchase of raw materials, performing job works, etc. ensuring business continuity; and established relationships with various suppliers and customers at a group level helps in securing raw materials and customers respectively. The rating, however, continues to be constrained by the relatively small scale of operations, despite steady improvement, with revenues of Rs. 31.62 crore in FY2016; increase in net working capital intensity due to increase in receivables owing to delay in payments during March 2016; and inventory holding risks due to volatility in bullion prices with the company holding 10-15 kgs of inventory at any time. The ratings are further constrained by the highly competitive and fragmented jewellery industry characterized by presence of other large and small players restricts operating margins; and high supplier and customer concentration risk with top-5 suppliers and top-5 customers accounting for nearly 90% and 62% of the purchases and sales respectively for FY2016.

Going forward, the ability of the company to increase its scale of operations, improve profitability and managing its working capital requirements effectively will be the key rating sensitivities from credit perspective.

**Key rating drivers**

**Credit Strengths**

- Improved scale of operations with revenues growing from Rs. 24.65 crore in FY2015 to Rs. 31.62 crore in FY2016 and further to Rs. 38.67 crore during 9mFY2017 due to increased sales to Kalyan Jewellers India Ltd. (rated [ICRA]A-/Stable/[ICRA]A2+)
- Over 8 decades of experience of promoters in the jewellery retailing business
- Strong presence in the jewellery industry through group companies like Sanghi Jewellers Pvt. Ltd. (SJPL, [ICRA]BBB-/Stable), Trisa Retail Ltd, Narbada Gems and Jewellery Ltd
- Established relationships with suppliers, customers at a group level helps UJIL in securing raw materials and customers respectively

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

**Credit Challenges**

- Working capital intensive operations led by sizable inventory levels to support operations
- High regulatory risks facing the industry as witnessed during the recent past could hinder growth prospects
- High supplier and customer concentration risks for FY2016; further the customer concentration risk increased in H1 FY2017 with top 5 customers accounting for ~95% of the total sales
- With high levels of inventory holding, the firm is exposed to volatility in gold prices in the absence of any formal hedging mechanism; partially mitigated with some bullion purchased through Gold Metal Loan from banks
- High competition from organised and unorganised players and low entry barriers for new entrants
- High competitive intensity with fragmented nature of industry and limited value addition restricts operating margins

**Description of key rating drivers highlighted above:**

UJIL has been engaged in manufacturing and trading of CZ (Cubic Zirconica) stone studded jewellery since October 2011. However, the group through its associate concerns such as Sanghi Jewellers Private Limited (SJPL), Narbada Gems and Jewellery Limited, etc. has its presence in the jewellery industry for the past 8 decades. Sanghi Jewellers Private Limited, the flagship company of the group, is into manufacturing of precious gems studded jewellery and has been in existence since 1993. With SJPL having established relationships with various suppliers and customers over the years, UJIL has benefitted in its sourcing and selling arrangements with various stakeholders in a relatively short span of time. This is reflected in the company adding Kalyan Jewellers India Ltd in H1 FY2017 which helped the company to improve its scale of operations steadily despite various hurdles that the industry faced in the last 12 months.

The company's revenues despite a steady growth over the past 2 years, continues to remain modest with revenues at Rs. 31.62 crore and Rs. 38.67 crore in FY2016 and 9mFY2017. Further, the growth in current year has been driven by sales to Kalyan Jewellers India Ltd. leading to increased customer concentration risk with top-5 customers accounting for 94% of the total sales during H1 FY2017. The industry is characterized by high working capital intensity due to high inventory levels needed to support operations and hence the company is also exposed to inventory holding risk due to volatility in gold prices in the absence of hedging, although some portion of bullion procured through Gold Metal Loan. Moreover, the company faces competition from numerous other small and large players constraining the operating profitability. The industry has been significantly affected by the regulatory changes such as levy of 1% additional excise duty on non-silver jewellery leading to industry wide shutdown in March 2016 together with the demonetization drive undertaken by the Central government in November 2016.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of Uday Jewellery Industries Limited along with its group company – Sanghi Jewellers Private Limited (rated [ICRA]BBB- (Stable)/ A3) – since both operate in the same line of business, have operational linkages and share a common management.

**Links to applicable Criteria:**
Corporate Credit Rating - A Note on Methodology
Rating Methodology for Indian Gems & Jewellery Industy - Cut & Polished Diamonds

**About the Company:**
Uday Jewellery Industries Limited (UJIL), a part of Hanumant Rai Sanghi Group, was incorporated on May 13, 1999 under the name of Net Trade Innovations Private Limited. The Company was subsequently converted into a Public Limited Company on February 16, 2000. The name of the Company was further changed to Hifunda.Com Limited on February 18, 2000. On June 4, 2004, the Company again changed its name to Hifunda Ltd. with the change in its various business activities. The name of the Company was then changed to Uday Jewellery Industries Limited on 17th October, 2011 post the takeover of the Company by its present management.
The company is engaged in the trading and manufacturing of CZ (Cubic Zirconica) studded jewellery with color stones. It has a manufacturing facility in Basheerbagh, Hyderabad spread over 1500 sq. feet. The company was listed on the Bombay Stock Exchange in December 2015.

**Recent Results**
For FY2016, the company reported profit after tax (PAT) of Rs. 1.75 crore on a turnover of Rs. 31.62 crore as against profit after tax of Rs. 1.19 crore and turnover of Rs. 24.65 crore in FY2015. As per the provisional results for H1 FY2017, the company reported a PAT of Rs. 1.01 crore on a turnover of Rs. 24.53 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

| S.No | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | **Type** | **Rated amount (Rs. crore)** | **Month-year & Rating** | **Month- year & Rating in FY2016** | **Month- year & Rating in FY2015** | **Month- year & Rating in FY2014** |
| | | | | **Jan 2017** | **Dec 2015** | **NA** | **NA** |
| 1 | Cash Credit | Long Term | 10.00 | [ICRA]BB (Stable) | [ICRA]BB (Stable) | NA | NA |

**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**

**Details of Instrument**

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|
| Cash Credit | - | - | - | 10.00^ | [ICRA]BB (Stable) |

^ includes sub-limit of Packing Credit, Gold Metal Loan, Bill Discounting, Bank Guarantee upto Rs. 10 crore
Source: Uday Jewellery Industries Limited

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**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
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