October 13, 2017

Renaissance Jewellery Limited

Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, fund-based limits	270.35	Reaffirmed at [ICRA]BBB+ (stable)
Short-term, non fund-based limits	12.00	Reaffirmed at [ICRA]A2+

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 270.35 crore[1] fund-based bank limits of Renaissance Jewellery Limited (RJL)[2]. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 12 crore non-fund based bank limits of RJL.

Rationale

The reaffirmation of ratings takes into account long track record of RJL's promoters in the gems and jewellery industry, professional management setup, consistent operating performance despite challenging market conditions, fairly large operating base as well as healthy financial risk profile characterised by favourable capital structure and comfortable coverage indicators.

The ratings are, however, constrained by RJL's modest profitability indicators as is largely prevalent in the wholesale jewellery industry on account of stiff competition arising out of a fragmented industry structure. The ratings are also constrained by high working capital intensity in business operations coupled with vulnerability of the jewellery industry to demand fluctuations from end-user markets of the USA and Europe. ICRA further notes that RJL's profitability is exposed to currency risks, given that its entire sales is export-based although the risk is mitigated to a large extent by way of a natural hedge and forward contracts. In FY2017 as well as the current fiscal, the industry has witnessed demand pressure in the key jewellery export markets; the same remains a key rating sensitivity. Also, the final outcome of the pending litigation on the demand notice served by the Customs Department remains a key rating sensitivity.

Key rating drivers

Credit strengths

- **Long experience of the promoters in the gems and jewellery industry –** The company's promoters have been operating in the gems and jewellery industry for close to three decades. Their long experience has helped the company command an established position in the studded jewellery industry.

- **Sizeable operating base enables economies of scale –** Currently, the company's operations have achieved a fairly large scale and size as reflected from a consolidated turnover of around Rs. 1,473.4 crore as of FY2017. A sizeable operating base has enabled the company to enjoy economies of scale, thus enhancing its competitive position in the industry.

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[1] *100 lakh = 1 crore = 10 million*

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

- **Favourable capital structure and comfortable interest coverage ratio –** During FY2017, RJL's capital structure (0.67 times) continued to remain favourable while interest coverage ratio (5.38 times) remained comfortable on the back of stable operating performance and relatively healthy capitalisation levels.

Credit weaknesses

- **Modest profitability indicators –** The wholesale jewellery industry is highly fragmented and low value addition in nature leading to stiff competition. This has resulted in modest profitability indicators for RJL in the past and they are expected to remain under pressure going forward.
- **Business operations susceptible to adverse movement in foreign exchange rates –** With most of the company's revenues acquired through exports, RJL's exposure to foreign currency has remained high over the years, exposing the company to the vagaries of currency markets. However, since the company's exports are backed by equivalent amount of imports on most of the occasions, the company enjoys a natural hedge to a large extent.
- **High working capital intensity –** The company's working capital intensity has remained on the higher side in FY2017 (NWC/OI: ~40%) due to the inherently elongated nature of the jewellery business. Nonetheless, RJL's concerted efforts in managing its working capital are expected to result in an improvement in key working capital indicators, going ahead.

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

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Renaissance Jewellery Limited (RJL) was incorporated in 1989 as Mayur Gems & Jewellery Exports Private Limited (MG&J). In 1995, Mr. Niranjan Shah and his family members acquired the entire shareholding of MG&J. Upon conversion into Public Limited Company in 2005, the name was changed to Renaissance Jewellery Limited. RJL exports studded jewellery and conducts this business along with its subsidiaries in the US (Renaissance Jewellery New York Inc), the UK (Verigold Jewellery - UK Limited), Dubai (Verigold Jewellery DMCC) and Bangladesh (Renaissance Jewellery Bangladesh Pvt. Ltd). It is also involved in furniture retailing through its step-down subsidiary - Housefull International Limited.

In FY2017, on a consolidated basis, the company reported a profit after tax (PAT) of Rs. 43.4 crore on an operating income of Rs. 1,473.4 crore, as compared to a PAT of Rs. 47.4 crore on an operating income of Rs. 1,391.6 crore in the previous fiscal.

In Q1 FY2018, on a consolidated basis, the company reported a PAT of Rs. 8.9 crore on an operating income of Rs. 377.7 crore, as compared to a PAT of Rs. 5.8 crore on an operating income of Rs. 274.6 crore in the corresponding quarter of the previous year.

Key financial indicators (Audited) - Consolidated

	FY2016	FY2017
Operating Income (Rs. crore)	1,319.58	1,473.45
PAT (Rs. crore)	47.35	43.42
OPBDIT/ OI (%)	5.95%	4.82%
RoCE (%)	3.59%	2.95%
Total Debt/ TNW (times)	0.55	0.67
Total Debt/ OPBDIT (times)	3.20	4.84
Interest Coverage (times)	7.46	5.38
NWC/ OI (%)	40.3%	40.2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014
				October 2017	July 2016	June 2015	March 2014
1	Pre-shipment Credit / Post-shipment Credit	Long Term	270.35	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Gold Loan	Short Term	12.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

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	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Pre-shipment Credit / Post-shipment Credit	-	-	Upto 1 year	270.35	[ICRA]BBB+ (Stable)
-	Gold Loan	-	-	Upto 1 year	12.00	[ICRA]A2+

Source: the company

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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