Uday Jewellery Industries Limited Revised

February 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	10.00	10.00	[ICRA]BB+(Stable); upgraded from [ICRA]BB(Stable)
Fund based limits – Proposed	Nil	8.00	[ICRA]BB+(Stable); upgraded from [ICRA]BB(Stable)
Total	**10.00**	**18.00**	

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 18.00 crore fund-based facilities (enhanced from Rs. 10.00 crore) of Uday Jewellery Industries Limited (UJIL) to [ICRA]BB+ (pronounced as ICRA double B plus) from [ICRA]BB (pronounced ICRA double B). The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade in rating factors in the increase in scale of operations from Rs. 45.2 crore during FY2017 to Rs. 54.6 crore during 9m, FY2018 on the back of orders from new customers such as Kalyan Jewellers India Limited (rated [ICRA]A-/Stable/[ICRA]A2+) & Malabar Gold Private Limited and infusion of Rs. 4.9 crore towards subscription money for equity share warrants issued in December 2017. The rating also positively factors in the operational and financial linkage with Sanghi group enabling better procurement terms for Cubic Zirconia (CZ) stones imported from Bangkok and casting work outsourced to Sanghi Jewellers Private Limited (rated at [ICRA]BBB-/Stable) on job work basis. The rating also factors in the comfortable financial risk profile reflected by gearing levels of 0.7 times as on March 31, 2017 and further by coverage indicators at 3.1 times during FY2017.

The rating is however constrained by the high competitive intensity in the gold manufacturing segment from organized and unorganized players limiting its pricing ability; small scale of operations with revenues of Rs 54.6 crore in 9m, FY2018; and high working capital intensity at ~46% as on March 31, 2017 owing to high receivables position and inventory position due to stocking of gold jewellery for showcasing its designs to customers.

Going forward, ability of UJIL to improve its scale of operations and effectively manage its working capital remain key credit monitorables.

Outlook: Stable

The 'Stable' outlook reflects ICRA belief that UJIL's revenues will grow at a healthy rate owing to orders from established players like Kalyan Jewellers and Malabar Gold and with expected stability in operating margins aided by natural hedge against gold price volatility provided by gold metal loans. The outlook may be revised to 'Positive' in case UJIL secures new orders and thereby show improvement in terms of revenues and profitability. The outlook may be revised to 'Negative' in case UJIL undertakes any large debt fund capex or in case of lower than expected equity infusion marked by non-conversion of share warrants.

Key rating drivers

Credit strengths

Strong operational linkage with Sanghi group – UJIL is part of the Sanghi group with the flagship company being Sanghi Jewellers Private Limited which is into jewellery manufacturing business. Being part of the group, UJIL gets support in manufacturing process (casting on job work basis), procurement (stones purchased in bulk for Sanghi group) and leveraging customer and supplier relationships. UJIL's promoters Mr. Sanjay Kumar Sanghi and Mr. Ritesh Kumar Sanghi have more than 25 years of experience in the manufacturing of gold jewellery.

Steady revenue growth with new orders flows – UJIL's revenues have grown at a CAGR of ~24% in the five-year period between FY2012 and FY2017 on the back of healthy orders from Kalyan Jewellers India Limited and Malabar Gold Private Limited. UJIL has an outstanding orderbook of ~25kg per month and orders from export orders to cater to Dubai markets.

Equity infusion in the form of convertible share warrants to aid in its business expansion plans – UJIL operates out of a 30kg facility in Hyderabad and plans to expand its facility to 60kg to cater to new customer orders. In lieu of its business expansion plans, UJIL has issued share warrants to its promoter and non-promoter group with Rs. 4.9 crore funds infused as subscription money in December 2017 and are likely to be converted to equity shares by FY2020.

Credit weaknesses

Small scale of operations - UJIL is a small-scale player in the gold jewellery manufacturing business with revenues of Rs. 54.6 crore in 9m, FY2018. Further with increasing orders, the company has plans to set up additional manufacturing capacity of 30kg to cater to fresh orders which should support the revenue growth in the medium term.

Industry characterised by high competition – Gold jewellery manufacturing is done through two different processes – hand-made and machine made. Most retail giants have their own karigars for customization of jewellery as per customer needs. Presence of large number of players for jewellery customization results in intense competition in the gold manufacturing business.

Stringent norms and regulatory reforms in the gold sector - Indian gold industry is exposed to increased regulatory intervention including mandatory PAN requirements, 80-20 export rule, 1% excise duty, etc which impacted the operating environment for all players. The industry is also subject to intense competition from a large unorganized market thereby impacting its revenues and profitability. However, increasing formalization in the gold sector provides opportunity for organized players.

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:

Uday Jewellery Industries Limited (UJIL), a part of Hanumant Rai Sanghi Group, is engaged in the manufacturing of CZ (Cubic Zirconica) studded jewellery with real color stones. It has a manufacturing facility in Basheerbagh, Hyderabad spread over 1500 sq. feet with a manufacturing capacity of 30kg. UJIL also intends to lease a facility to increase its manufacturing capacity to 60kg in FY2019 due to expected increase in demand for its products. The company was listed on Bombay Stock Exchange in December 2015.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	9m FY2018
Operating Income (Rs. crore)	31.6	45.2	54.6
PAT (Rs. crore)	1.8	1.2	1.9
OPBDIT/ OI (%)	4.5%	3.5%	4.9%
RoCE (%)	15.1%	9.7%	
Total Debt/ TNW (times)	0.3	0.7	-
Total Debt/ OPBDIT (times)	3.0	6.2	-
Interest coverage (times)	8.7	3.1	5.5
NWC/ OI (%)	47.7%	46.0%	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Jan 2016	Date & Rating in FY2015 Jun 2014
1	Fund Based: Cash Credit	Long Term	10.00	18.00	[ICRA]BB+ (Stable);	[ICRA]BB (Stable);	[ICRA]BB (Stable);	-

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
NA	Cash Credit	Jan 2017	9.60%	365 days	10.00	[ICRA]BB+ (Stable)
NA	Cash Credit - Proposed	-	-	-	8.00	[ICRA]BB+ (Stable)

Source: UJIL

Corrigendum

Document dated February 26, 2018 has been corrected with revisions as detailed below:

- Revision on page number 4, under Rating history for last three years: The date for the previous rating action in FY2016 was mentioned as December 2015. However, the same has been revised to January 2016.

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