Uday Jewellery Industries Limited

March 14, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fun Based/Cash Credit	18.00	18.00	[ICRA]BB+(Stable) reaffirmed
Total	**18.00**	**18.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation positively factors in increase in scale of operations from Rs. 45.2 crore during FY2017 to Rs. 71.55 crore in FY2018 and to Rs. 40.40 crore during 6MFY2019 owing to increased orders from Kalyan Jewellers India Limited, Tibarumal Jewellery and Sree jewellery Exim Pvt. Ltd; improved operating profit margin to 6.56% in 9MFY2019 and 4.95% in FY2018 from 3.47% in FY2017 owing to better margins on gold sales; and comfortable gearing of 0.40 times, TOL/TNW of 0.43 times as on September 30, 2018, interest coverage ratio of 6.92 times and NCA/TD of 31.46% in 6MFY2019. The rating also considers operational linkages with Sanghi group enabling better procurement terms for imported Cubic Zirconia (CZ) stones and casting work outsourced to Sanghi Jewellers Private Limited on job work basis. The rating is however constrained by the high working capital intensity at 49.77% in 6MFY2019 owing to high receivables and inventory levels due to stocking of gold jewellery for showcasing its designs to customers; small scale of operation with revenue of Rs. 71.55 crore in FY2018; and exposure of company's profitability to fluctuation in gold prices. However, partial hedging of inventory through metal loans mitigates this risk to an extent. The rating is further constrained by high competitive intensity in the gold manufacturing segment from organized and unorganized players limiting its pricing ability.

Going forward, ability of UJIL to improve its scale of operations and operating margins while effectively manage its working capital requirements will remain the key rating sensitivities.

Outlook: Stable

The stable outlook reflects ICRA belief that UJIL's will continue to benefit from promoters' longstanding relationship with its customers as reflected by repeated orders from players like Kalyan Jewellers and Malabar Gold. Further, UJIL's scale of operation is expected to improve with increased manufacturing capacity with the company setting up a new manufacturing facility in Hyderguda, Hyderabad. The outlook may be revised to 'Positive' in case UJIL secures new orders and thereby shows improvement in terms of revenues and profitability. The outlook may be revised to 'Negative' in case UJIL undertakes any large debt fund capex or increase in working capital intensity.

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 (rated [ICRA] BBB- (Stable)) which is into jewellery manufacturing business. Being part of the group, UJIL gets support in the manufacturing process (casting on job work basis), procurement (stones purchased in bulk for the 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.

Significant growth in operating income: The company's operating income increased by 58.41% to Rs. 71.55 crore in FY2018 from Rs 45.17 crore in FY2017 owing to increased orders for its 22 ct gold studded jewellery from Kalyan Jewellers, Tibarumal Jewellery and Sree jewellery Exim Pvt. Ltd. UJIL operates out of a 30kg facility in Hyderabad and plans to expand its facility to 45kg to cater to new customer orders by setting up a new facility in Hyderabad by April 2019. Although the operating income has increased over the years, the scale of operations continues to remain low at Rs. 54.36 crore in 9MFY2019.

Comfortable financial risk profile: The financial risk profile of UJIL is comfortable with gearing at 0.40 times, TOL/TNW of 0.43 times as on September 30, 2018, interest coverage ratio of 6.92 times, total debt/OPBDITA of 2.27 times and NCA/TD of 31.46% in 6MFY2019. The operating profit margins improved to 6.56% in 9MFY2019 compared to 3.54% in FY2017 owing to to better margins on gold sales.

Credit challenges

High working capital intensity: The working capital intensity remains high at 49.77% in 6MFY2019 owing to high receivables and inventory levels due to stocking of gold jewellery for showcasing its designs to customers. The working capital requirement has been funded through cash credit borrowing and infusion of equity by conversion of share warrants issued in October 2017 to the tune of Rs. 9.81 crore and Rs. 4.89 crore in March 2018 and October 2018 respectively.

Exposure to gold price volatility and foreign currency fluctuation risk: The company's profitability is exposed to volatility in gold prices. However, given UJIL procures gold through Gold Metal Loans (GML) this impact is reduced to an extent. Further, the company is exposed to foreign currency fluctuation risk given that the company had started exports in H1FY2019. The company plans to avail Pre-shipment credit in foreign currency (PCFC) loan for order supply. This would provide a natural hedge to company's profitability.

Jewellery 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 subjected to intense competition from a large unorganized market thereby impacting its revenues and profitability. However, increasing formalization in the gold sector provides opportunity for organised players like UJIL.

Liquidity position:

The liquidity position of the company is moderate as reflected by high average working capital utilization of 83% in the past one year ending January 2019. The company has low cash surplus of Rs. 2.08 crore and Rs. 0.07 crore as on March 31, 2018 and September 2018 respectively. Equity infusion of Rs. 9.81 crore in March 2018 and Rs. 4.89 crore in October 2018 from warrant conversion to support the liquidity in the near term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Uday Jewellery Industries Limited (UJIL) is a part of Hanumant Rai Sanghi Group and was incorporated in May 1999. UJIL is engaged in the trading and manufacturing of CZ (Cubic Zirconica) studded jewellery with real color stones. The company has its corporate office in Basheerbagh, Hyderabad and leased manufacturing facility in Hyderguda spread over 3000 sq. feet having capacity of 30 kgs per month. The company was listed on Bombay Stock Exchange in December 2015.

Key financial indicators (Provisional)

	FY2017	FY2018	9MFY2019
Operating Income (Rs. crore)	45.17	71.55	54.36
PAT (Rs. crore)	1.15	2.38	2.30
OPBDIT/OI (%)	3.47%	4.95%	6.56%
RoCE (%)	9.68%	11.90%	-
Total Debt/TNW (times)	0.65	0.24	-
Total Debt/OPBDIT (times)	6.22	1.97	-
Interest coverage (times)	3.08	5.55	5.25

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the past 3 years		
				Amount Outstanding (Rs. Crore)	Date &Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					March 2019	February 2018	January 2017	January 2016
1	Cash Credit	Long Term	18.00	-	[ICRA]BB+ (Stable)	[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	NA	10.00%	NA	18.00	[ICRA]BB+ (stable)

Source: Uday Jewellery Industries Limited

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About ICRA Limited:

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