March 11, 2020

Uday Jewellery Industries Limited: Long term rating upgraded to [ICRA]BBB-(Stable)

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]BBB-(Stable); upgraded from [ICRA]BB+ (Stable)
Total	**18.00**	**18.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating revision positively factors in increase in Uday Jewellery Industries Limited's (UJIL) operating income to Rs. 66.98 crore in 9MFY2020 from Rs. 71.55 crore in FY2018 owing to increased sales volume and gold prices; and improved operating profitability margins to 8.66% in 9MFY2020 from 4.95% in FY2018 owing to benefit from increased gold prices and reduced job work expenses. The ratings also consider comfortable financial risk profile with gearing at 0.28 times, Total outside liability/Tangible Net worth of 0.30 times as on September 30, 2019, interest coverage ratio at 7.18 times, and total debt/OPBDITA of 1.62 times in H1FY2020 owing to low debt levels; and reputed clientele comprising retail majors like Kalyan Jewellers India Limited, Malabar Gold Private Limited, etc. The rating also considers operational linkages with Sanghi Jewellers Private Ltd (SJPL) enabling favorable procurement of imported Cubic Zirconia (CZ) stones. The rating is, however, constrained by the company's small scale of operation with revenue of Rs. 66.98 crore in 9MFY2020; and high working capital intensity at 61% in H1FY2020 owing to high receivables and inventory levels. The rating also considers exposure of company's profitability margins to fluctuation in gold prices. However, partial hedging of inventory through metal loans mitigates the price volatility risk to an extent. ICRA also notes the high competitive intensity in the gold manufacturing segment from large number of organized manufacturers limiting its pricing ability and thereby constraining improvement in margins.

Key rating drivers

Credit strengths

Operational support from 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 procurement of colour stones and leveraging customer and supplier relationships. The company has reputed client base with customers like Kalyan Jewellers India Limited, Malabar Gold Private Limited, Joy Alukkas etc.

Growth in operating income: The company's operating income increased to Rs. 66.98 crore in 9MFY2020 from Rs.71.55 crore in FY2018 owing to increased sales volume and gold prices. The increase in sales volume in 9MFY2020 is supported by increase in gold manufacturing capacity to 35 kgs/month in April 2019 from earlier 30 kgs/month.

Improved operating profit margins: The operating profit margins improved to 8.66% in 9MFY2020 from 4.95% in FY2018 owing to benefits arising from increased gold prices and reduced job work expenses given the company has stopped outsourcing gold casting work to Sanghi Jewellers Private Limited.

Comfortable financial risk profile: The financial risk profile of UJIL is comfortable with gearing at 0.28 times, TOL/TNW of 0.30 times as on September 30, 2019 owing to low debt levels. The coverage indicators are comfortable with interest coverage ratio at 7.18 times, and total debt/OPBDITA of 1.62 times in 6MFY2020.

Credit challenges

High working capital intensity: The working capital intensity is high at 61% in H1FY2020 owing to high receivables and inventory levels. Debtor days increased in H1FY2020 owing to increased sales in month end. The company provides credit period of 60-90 days to customers. Given the company follows weighted average method for inventory valuation, the profitability margins are benefitted owing to lower value of inventory and increased realization. The impact on company's profitability margins would be marginal even if there is a sudden adverse movement in gold prices owing to lower value of inventory.

Exposure to gold price volatility and foreign currency fluctuation risk: The company's profitability is exposed to volatility in gold prices. However, UJIL procures part of the gold requirement through Gold Metal Loans (GML) reducing this risk to an extent.

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 and thereby constrains improvement in margins.

Stringent norms and regulatory reforms in the gold sector: Indian gold industry is exposed to increased regulatory intervention 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: Adequate

UJIL's liquidity remains adequate with average monthly utilisation of fund-based working capital limits at 76.65% during the 12-month period that ended in January 2020. Absence of major debt-funded capital expenditure plan with limited annual debt repayments (Rs. 0.27 crore in FY2020) against net cash accruals of ~Rs. 4.00-6.00 crore in FY2020 to FY2022 supports the company's liquidity position in the near term.

Rating sensitivities

Positive triggers – ICRA could upgrade UJIL's rating if the company demonstrates healthy growth in revenues and profitability margins on sustained basis. Specific credit metric that could lead to an upgrade of UJIL's rating include ROCE of more than 15% on a sustained basis.

Negative triggers – Negative pressure on UJIL's rating could arise if there is decline in revenues or profitability on sustained basis. Increase in gross current assets on a sustained basis adversely impacting the company's liquidity position to put negative pressure on UJIL's rating. The company's inability to maintain interest coverage of above 2.80 time on sustained basis shall trigger a downward revision in ratings.

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 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 and manufacturing facility in Hyderguda, Hyderabad spread over 4630 sq. feet having capacity of 35 kgs per month. The company was listed on Bombay Stock Exchange in December 2015.

Key financial indicators

	FY2018	FY2019	9MFY2020*
Operating Income (Rs. crore)	71.55	73.41	66.98
PAT (Rs. crore)	2.38	3.09	3.82
RoCE (%)	11.88%	11.81%	-
Total Debt/TNW (times)	0.24	0.32	-
Total Debt/OPBDIT (times)	1.97	2.33	-
Interest coverage (times)	5.55	5.16	8.53

*provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					11-Mar-2020	14-Mar-2019	26-Feb-2018	16-Jan-2017
1	Cash Credit	Long Term	18.00	-	[ICRA]BBB- (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 click here

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	-	10.00%	-	18.00	[ICRA]BBB- (Stable)

Source: Uday Jewellery Industries Limited

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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.

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