September 25, 2024

Uday Jewellery Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based- Cash credit	35.00	40.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund based- Term loan	2.42	0.84	[ICRA]BBB (Stable); reaffirmed
Long-term – Unallocated limits	3.50	0.08	[ICRA]BBB (Stable); reaffirmed
Total	**40.92**	**40.92**	

**Instrument details are provided in Annexure-I*

Rationale

On August 31, 2024, the board of Uday Jewellery Industries Limited (UJIL) had provided in principle approval for the amalgamation of UJIL and Narbada Gems and Jewellery Limited (NGJL) and had constituted a specific committee. Further, on September 16, 2024, the board had approved the scheme of arrangement for amalgamation of NGJL (transferor company) with UJIL (transferee company). Basis the proposed scheme, shareholders of NGJL would be allotted 4,623 equity shares of UJIL for every 10,000 equity shares in NGIL, subject to the approval of various stakeholders of both the companies. ICRA has noted these developments and would closely monitor any further development relating to this event and take appropriate actions, if necessary.

The rating reaffirmation of UJIL considers the expected stability in operational and financial performances over the medium term on the back of its established presence, expected long-term benefits from the recent capacity additions and its comfortable financial profile. After witnessing a healthy revenue growth of ~45% in FY2023, on a YoY basis, UJIL's revenues remained flat in FY2024 at Rs. 173.8 crore. Despite an improvement witnessed in gross contribution margins, due to an increase in employee costs, the operating margin remained stable at 7.7% in FY2024 compared to 7.6% in FY2023. UJIL's financial profile remains comfortable owing to its conservative capital structure and healthy coverage indicators. In FY2024, the debt-to-operating profit and interest coverage ratio improved to 1.8 times and 9.0 times, respectively, against 2.5 times and 7.6 times, respectively, in FY2023. Further, the credit metrics and liquidity position of UJIL are likely to improve further over the medium term, with the proposed capital infusion in the form of convertible warrants for Rs. 34.6 crore over FY2025 and FY2026. These warrants are convertible into equity shares in a ratio of 1:1 within a period of 18 months. The rating also considers the established relationships with reputed jewellery retail chains in the domestic as well as export markets, as reflected in repeat business generated over the years.

The rating, however, remains constrained by its small scale of operations and high working capital-intensive nature of operations with NWC/OI remaining high at 52.6% in FY2024. The ratings also remain constrained by UJIL's high customer concentration risk with ~63% of its revenues derived from its top five customers in FY2024. However, comfort can be drawn from the fact that UJIL has established relationships with most of these clients, leading to repeat orders and continued addition of new customers. The rating also factors in the intense competition in the gold manufacturing segment, which limits its pricing ability and exposes earnings to fluctuations in gold prices.

The Stable outlook on the long-term rating reflects ICRA's expectations that UJIL is likely to improve its revenues and operating metrics. Further, the outlook underlines ICRA's expectations that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established presence in the industry – UJIL is a part of the Hanumant Rai Sanghi Group, which has more than two decades of experience in manufacturing gold jewellery. This has supported the company in forging established relationships with large jewellery retailers in the domestic as well as export markets, as reflected in repeat business generated over the years. Further, steady demand, recent capacity additions, and regulatory changes mandating increased transparency, and compliance and mandatory hallmarking are expected to drive a steady growth in revenues over the medium term.

Business profile marked by marquee clientele – UJIL manufactures fashion gold jewellery studded with CZ (Cubic Zirconica) and other coloured stones. UJIL continues to have marquee clients in the jewellery industry. Key customers include Kalyan Jewellers India Limited, Joyalukkas India Limited, and Malabar Gold Limited, etc. The company's established long-term relationships with clients support its revenue growth and has recently added Novel Jewel Limited (Aditya Birla Group) to their portfolio in the current fiscal year. The company has its corporate office and manufacturing facility at Hyderguda, Hyderabad. In November 2023, the company shifted its manufacturing facilities to a new unit spread across 10,000 sq. ft (owned by promoters). With this, it increased its available manufacturing capacity to 125 kgs per month, against 35 kgs per month earlier. Although the current capacity utilisation levels stand at around 30 kgs per month, it could be extended to up to 125 kgs per month based on the requirements

Comfortable financial profile – UJIL's capitalisation levels remain comfortable, driven by steady earnings, reduced reliance on working capital borrowings and no major debt-funded capital expenditure incurred in the last few fiscals. The gearing and total outside liabilities to the tangible net worth stood at 0.3 times and 0.4 times, respectively, in FY2024. Further, the coverage indicators have improved in FY2024 with an interest coverage and total debt to operating profit of 9.0 times and 1.8 times, respectively, supported by lower working capital limit utilisation. With no major expansion envisaged, along with steady earnings, UJIL's debt protection metrics are expected to remain at a comfortable level, going forward.

Credit challenges

High working capital intensity – The operations of the company are working capital intensive in nature due to the inherent nature of the industry. UJIL's working capital intensity remains high, characterised by high receivables and inventory days. The company provides a credit period of 90 days to most of its customers, resulting in high debtor days. Further its average inventory holding stands high at over 100 days, resulting in a high NWC/OI of around 52%. UJIL's adequate liquidity position provides some comfort.

Intense competition limits pricing flexibility – The company faces intense competition from unorganised players in the manufacturing segment and other established brands in the market, which limit its pricing flexibility. Besides, high inventory of unhedged raw materials exposes the company's profitability to volatility in gold prices.

Environment and Social Risks

Environmental considerations: Exposure to environmental risks remains low for entities in the jewellery wholesale industry. Few concerns include episodes of excessive rainfall/flooding in the operating regions, impacting its jewellery stores. Additionally, the indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change also pose risks to revenue growth and profitability.

Social considerations: Exposure to social risks remains moderate for entities in the jewellery wholesale industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour. Additionally, with a relatively high requirement of workforce for jewellery manufacturing, the level of wages and associated fixed costs could weigh on margins, especially given the skilled nature of work.

Liquidity position: Adequate

UJIL's liquidity position is expected to remain adequate, supported by steady earnings and adequate unutilised lines of credit. The average utilisation of its working capital facilities stood at ~35% of the sanctioned working capital limits of Rs. 35 crore, over the last 12 months ending in July 2024.The entity has capex planned of ~Rs. 2 crore to be incurred in FY2025, funded through its internal accruals. Further, UJIL is expected to generate cash accruals of more than Rs. 10 crore against low annual debt repayments of Rs. 1.0 crore and no major capex plans.

Rating sensitivities

Positive factors – The rating may be upgraded, if the company demonstrates a healthy growth in revenues and earnings, strengthening its net worth position and improves its working capital cycle.

Negative factors – The rating may be downgraded, in case of any sustained pressure on the operating performance, or any further elongation of its working capital cycle, which will adversely impact its coverage metrics and liquidity. Specific credit metric for a downgrade is Total Debt/OPBITDA more than 3.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

UJIL is a part of the Hanumant Rai Sanghi Group and was incorporated in May 1999. It is involved in the manufacturing and trading of fashion Jewellery made from colour stone (gems) and precious stones studded gold jewellery with specialisation in Cubic Zirconica stone studded jewellery. The company's corporate office and manufacturing facilities are in Hyderguda, Hyderabad. It was listed on the Bombay Stock Exchange in December 2015. It is managed by Mr. Ritesh Kumar Sanghi and family, which holds a 73.8% stake in the company and the remaining is held by public shareholders.

Key financial indicators (audited)

UJIL Standalone	FY2023	FY2024	Q1FY2025*
Operating income	176.9	173.8	41.5
PAT	9.5	8.7	2.6
OPBDIT/OI	7.6%	7.7%	9.4%
PAT/OI	5.4%	5.0%	6.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.4	-
Total debt/OPBDIT (times)	2.5	1.8	-
Interest coverage (times)	7.6	9.0	12.2

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; *provisional numbers; Amounts in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating on	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
				Sep 25, 2024	June 26, 2023		March 28, 2022	October 7, 2021
1	**Cash credit**	Long-Term	40.00	**[ICRA]BBB(Stable)**	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	**Term loan**	Long-Term	0.84	**[ICRA]BBB(Stable)**	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
3	**Unallocated**	Long-Term	0.08	**[ICRA]BBB(Stable)**	**[ICRA]BBB (Stable)**	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund based- Cash credit	Simple
Long term – Fund based-Term loan	Simple
Long Term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	40.00	[ICRA]BBB (Stable)
NA	Term loan	FY2021	NA	FY2025	0.84	[ICRA]BBB (Stable)
NA	Unallocated limits	NA	NA	NA	0.08	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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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