September 27, 2024

Sanghi Jewellers Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Cash credit	82.50	88.50	[ICRA]BBB- (Stable); reaffirmed/ assigned for enhanced amount
Total	**82.50**	**88.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Sanghi Jewellers Private Limited (SJPL) considers the expected improvement in the company's operational and financial performances over the medium term on the back of its established presence and expected long-term benefits from the recent capacity additions, which would support its revenue growth. Its revenues declined by 2.1% on a YoY basis to Rs. 284.9 crore in FY2024 (provisional). This, along with a one-time write-off of investment worth ~Rs. 1.0 crore resulted in SJPL's operating margins moderating by 40 bps to 3.3% in FY2024, on a YoY basis. Further, its net margin moderated to 1.0% in FY2024 from 1.8% in FY2023 due to increase in interest costs. Going forward, growth in revenues and margins is likely to be supported by repeat orders from its existing clients and continued addition of new customers with improving formalisation of the jewellery sector to support organised trade. 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 a moderate financial risk profile, characterised by high working capital intensity, which increased further in FY2024 due to an increase in inventory holding, funded through rise in working capital borrowings. The inventory holding levels are expected to moderate, going forward, as the event related to piling of inventory in Q4 FY2024 was an exceptional scenario. The year-end inventory holding increased to Rs. 92.6 crore in FY2024 from Rs. 58.7 crore in FY2023 as some of its customers postponed their deliveries to Q1 FY2025. The total-debt to operating profits and interest coverage have moderated to 7.6 times and 1.8 times, respectively in FY2024 from 4.6 times and 3.3 times, respectively, in FY2023. Nevertheless, the coverage indicators are expected to improve in the current fiscal with a marginal increase in the scale of operation and reduction in inventory holding. The rating also remains constrained by SJPL's increased customer concentration risk with ~80% of its revenues derived from its top five customers in FY2024. The rating further factors in the intense competition in the jewellery manufacturing industry, which limits the company's pricing flexibility and margins, the vulnerability of earnings to volatility in gold prices and regulatory risks faced by the sector.

The Stable outlook on the long-term rating reflects ICRA's expectation that SJPL is likely to improve its revenues and operating metrics. Further, the outlook underlines ICRA's expectation 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 rating.

Key rating drivers and their description

Credit strengths

Established presence in the industry – SJPL is a part of the Hanumant Rai Sanghi Group, which has more than three decades of experience in manufacturing gold jewellery, resulting in established relationships with large jewellery retailers such as Malabar Gold Limited, Kalyan Jewellers India Limited, Joyalukkas India Limited, etc., in the domestic as well as export markets, reflected in repeat businesses over the years.

Improving formalisation of jewellery sector to support organised trade – The jewellery manufacturing sector is fragmented with the presence of many unorganised players. However, the regulatory changes mandating increased transparency and compliance are expected to create a difficult operating environment for the unorganised players. Mandatory hallmarking of gold jewellery further supports the organised trade and provide better opportunities for players such as SJPL, leading to improved market share.

Credit challenges

Moderate operating profitability – The company's operating margins moderated by 40 bps on a YoY basis to 3.3% in FY2024 due to one-time write-off of investment of ~Rs. 1.0 crore. Further, higher inventory holding towards the end of FY2024 and the resultant increase in the working capital intensity to 44.8% in FY2024 increased the interest costs, moderating its coverage indicators. Nevertheless, the entity's capitalisation metrics have remained at comfortable levels with gearing and TOL/TNW of 0.9 and 1.0 times, respectively, as on March 31, 2024. Further, with the expected increase in the scale of operation and reduction in inventory holding, the coverage indicators are likely to improve over the medium term.

Exposed to high customer concentration – Notwithstanding the long-term relationships with the clients, SJPL is exposed to high customer concentration risk as ~80% of its revenues was derived from the top five customers in FY2024. However, SJPL's established relationships with most of these clients result in repeat orders, which provide some comfort. Also, the company has been adding new customers, leading to moderation of the customer concentration risk.

Intense competition limits pricing flexibility – SJPL faces intense competition from organised and unorganised players in the manufacturing segment, which limits its pricing flexibility. Further, its earnings remain exposed to volatile gold prices, as seen in the past. A part of the price volatility risk is mitigated by SJPL's hedging practices, as it procures most of its gold through gold metal loans.

Liquidity position: Adequate

SJPL'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 around 77.5% of sanctioned limit of Rs. 82 crore over the last 12 months ended in July 2024. ICRA further notes that the company does not have any major debt repayment and capex plan in the coming years and its cash flows are expected to be sufficient in supporting its working capital requirements and debt repayment obligations.

Rating sensitivities

Positive factors – SJPL's rating may be upgraded if the company registers a sustained healthy growth in revenues and earnings, strengthening its liquidity position. Specific credit metrics that could lead to a rating upgrade include an interest coverage ratio above 3.0 times, on a sustained basis.

Negative factors – The rating may be downgraded, in case of any sustained pressure on the company's operating performance or any large debt-funded capex, which would adversely impact the liquidity and debt protection metrics. Specific credit metrics that could lead to a rating downgrade include TOL/TNW of more than 1.5 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

SJPL is a part of the Hanumant Rai Sanghi Group and manufactures stone-studded jewellery in India, catering to the domestic and export markets. It was established in 1999. The company's corporate office and manufacturing facilities are in Hyderguda, Hyderabad. The company manufactures coloured, precious stone and gem-studded gold jewellery with its product portfolio encompassing long necklaces rings, bangles and bracelets.

Key financial indicators

Sanghi Jewellers Private Limited	FY2023	FY2024*
Operating income	291.0	284.9
PAT	5.3	2.8
OPBDIT/OI	3.7%	3.3%
PAT/OI	1.8%	1.0%
Total outside liabilities/Tangible net worth (times)	0.8	1.0
Total debt/OPBDIT (times)	4.6	7.6
Interest coverage (times)	3.3	1.8

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount 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 27, 2024	July 27, 2023	April 06, 2022	Sep 09, 2021
1	Cash Credit	Long-Term	88.50	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Unallocated	Long-Term	-			[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based -Cash Credit	Simple

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	88.50	[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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