December 24, 2024 (Revised)

Sovereign Metals 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	50.00	50.00	[ICRA]BBB- (Stable); reaffirmed
Short term – Non-fund based – SBLC	140.00	140.00	[ICRA]A3; reaffirmed
Short term – Fund based	150.00	150.00	[ICRA]A3; reaffirmed
Short term – Non-fund based – Forward cover	10.00	10.00	[ICRA]A3; reaffirmed
Long term/Short term – Unallocated	100.00	0.00	-
Total	**450.00**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to favourably take into consideration the extensive experience of the promoters in the gold bullion trading business, giving Sovereign Metals Limited (SML) access to a wide network of customers and mitigating the customer concentration risk to some extent. ICRA also notes SML's high refining capacity (100 MT for gold and 250 MT for silver), placing it among the top five domestic gold refiners in terms of capacity. While the capacity utilisation of the refinery remains low so far, an increase in the utilisation will be crucial for the company given the low margins in its business.

The rating also factors in the favourable duty differential of 0.65% available for domestic gold refiners currently and any change in the same will be a key rating sensitivity. The rating further takes into consideration the company's policy to avoid/minimise any gold price and forex fluctuation risks by practising back-to-back order bookings. The ratings also consider SML's comfortable debt coverage metrics witnessed over the recent years, which are likely to sustain in the near future. The company's debt coverage metrics remained comfortable, reflected in TD/OPBIDTA of 2.5 times, interest coverage of 3.9 times, TOL/TNW of 1.1 times and DSCR of 3.3 times in FY2024. Further, the company's adequate liquidity on the back of a short working capital cycle, buffer in the available limits and reasonable free balances provide comfort to its operations.

The ratings, however, remain constrained by the low value addition in the precious metal refining business, resulting in thin operating margins for the company and strong competition from other gold refineries in India and overseas, accredited with the London Bullion Market Association (LBMA). However, ICRA notes that SML initiated the process of seeking LBMA certification, which will support its business growth and profitability. The rating also considers the significant regulatory risk inherent in the refining business and any adverse change in the duty structure will be a risk for the domestic refinery business.

The Stable outlook reflects ICRA's expectations that SML would continue to benefit from the extensive experience of its promoters in the gold trading business and the access to a diverse client network. ICRA also expects the available duty differential for domestic refiners to continue, supporting SML's profitability.

Key rating drivers and their description

Credit strengths

Extensive experience and track record of promoters in bullion trading business – The Shreeji Group, one of the promoters of SML, has a track record of over 20 years in the gold bullion trading business. SML benefits from the experienced management, customer/supplier tie-ups and infrastructure support from its promoters. It also has ISO certifications in place as well as a modern laboratory with the latest equipment.

Low working capital intensity – SML requires 2-3 days for refining gold and silver due to which the inventory is very low (4 days as on March 31, 2024). Moreover, all the company's sales are order backed, which enables SML to have low debtor (3 days as on March 31, 2024) and creditor days (2 days as on March 31, 2024). The net working capital intensity of the company stood at 1.7% in FY2024.

Comfortable debt coverage metrics – SML's debt coverage metrics remain comfortable on account of the low debt levels and growing net worth, reflected in TD/OPBIDTA of 2.5 times, interest coverage of 3.9 times and DSCR of 3.3 times in FY2024.

Credit challenges

Inherently thin margins in gold refining business – Precious metals refining is an inherently low-margin business, given the high absolute value of the products involved and the limited value addition. The transactions take place either at a premium or at a discount to the LME gold price, depending on the market conditions and supplier-customer relationships. In addition, there is a duty differential of 0.65% available for domestic refiners, which adds to the margins. The operating margins of established players in the refining business are less than 1%, which imply that SML's build-up in scale would remain important to improve its profits at an absolute level. Any adverse change in the duty structure, creating pressure on the profitability, will be a key rating sensitivity.

Strong competition from fine gold importers – A gold refinery in India faces direct competition from banks/financial institutions and traders that directly import fine gold. International refiners that export fine gold to India are generally LBMA good delivery accredited, which ensures that the quality of gold meets international standards. ICRA notes that the company has initiated the process to get LBMA accreditation, which will make it eligible to source gold dore directly from international miners. Consequently, the company would be one of the few such entities in India.

Exposure to regulatory risks in refinery business – The available duty differential of 0.65% with respect to imported fine gold gives the domestic refiners enough spread to run profitable operations. However, any reduction in this duty differential through changes in Government policies may erode SML's margins and significantly impact its operations. Additionally, from June 2018, the Directorate General of Foreign Trade, Government of India, has made it mandatory for companies to get a licence for gold dore import. This licence requires the Bureau of Indian Standards (BIS) to audit the refinery and the refining process. Though SML already has the import licence, any issue highlighted by BIS in the future can delay the licence renewal and significantly impact its operations.

Liquidity position: Adequate

SML's liquidity position is adequate, considering the healthy cash flows which would be sufficient to cover its debt service obligations, primarily only interest expenses on working capital limits in the absence of any term loan. Moreover, the company maintains reasonable free cash balances for any urgent payments, reflected in the cash and liquid investments of Rs. 35 crore as on March 31, 2024. Additionally, the low working capital intensity of the company's operations and the undrawn limits of credit provide comfort to its liquidity. The company derives comfort from unsecured loans from the promoters worth Rs. 7.4 crore as on March 31, 2024, which are interest free with flexible repayment terms.

Rating sensitivities

Positive factors – A significant ramp-up in the refinery's capacity utilisation, leading to a growth in scale and profitability, along with a comfortable liquidity position on a sustained basis may lead to an upgrade.

Negative factors – Any adverse change in the duty structure or a significant decline in the operating profit margin or a stretch in the company's working capital cycle may result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

SML is involved in the refining and trading of precious metals like gold and silver. The company was incorporated in February 2012 by the Edelweiss Group, a reputed commodity and security trading house, as Edelweiss Metals Limited. The Edelweiss Group, as a part of its business policy, decided to hive off its non-core commodity business and focus on the core financial services business. Consequently, the company was taken over by the Shreeji Group along with the Lakhi and Mehta families in October 2017 and was renamed Sovereign Metals Limited. The refinery unit is at Naroda, Ahmedabad (Gujarat), and has a refining capacity of 100 MT of gold and 250 MT of silver. It is an ISO 9001 and ISO 14001 certified company.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
Operating income	6,288.5	4983.6	1976.6
PAT	11.8	11.8	6.2
OPBDIT/OI	0.6%	0.5%	0.5%
PAT/OI	0.2%	0.2%	0.3%
Total outside liabilities/Tangible net worth (times)	2.6	1.1	1.9
Total debt/OPBDIT (times)	4.7	2.5	3.8
Interest coverage (times)	3.5	3.9	3.8

*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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Dec 24, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long term	50.00	[ICRA]BBB- (Stable)	18-Dec-2023	[ICRA]BBB- (Stable)	29-Sep-2022	[ICRA]BB+ (Stable)	30-Sep-2021	[ICRA]BB (Stable)
Non-fund based – SBLC	Short term	140.00	[ICRA]A3	18-Dec-2023	[ICRA]A3	29-Sep-2022	[ICRA]A4+	30-Sep-2021	[ICRA]A4+
Fund-based facilities	Short term	150.00	[ICRA]A3	18-Dec-2023	[ICRA]A3	29-Sep-2022	[ICRA]A4+	-	-
Non-fund based – Forward cover	Short term	10.00	[ICRA]A3	18-Dec-2023	[ICRA]A3	29-Sep-2022	[ICRA]A4+	-	-
Unallocated limits	Long term/Short term	0.00	-	18-Dec-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	29-Sep-2022	[ICRA]BB+ (Stable)/ [ICRA]A4+	30-Sep-2021	[ICRA]BB (Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short term – Non-fund based – SBLC	Very simple
Short term – Non-fund based – Forward cover	Simple
Short term – Fund based	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/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund based – Cash credit	NA	NA	NA	50.00	[ICRA]BBB- (Stable)
NA	Short-term – Non-fund based – SBLC	NA	NA	NA	140.00	[ICRA]A3
NA	Short-term – Fund based	NA	NA	NA	150.00	[ICRA]A3
NA	Short-term – Non-fund based – Forward cover	NA	NA	NA	10.00	[ICRA]A3

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

Corrigendum

Rationale dated December 24, 2024 has been revised with the changes as below:

In the key financial indicators table, Total debt/OPBDIT figure was captured incorrectly in FY2023. The same has been corrected in the key financial indicators on page number 3.

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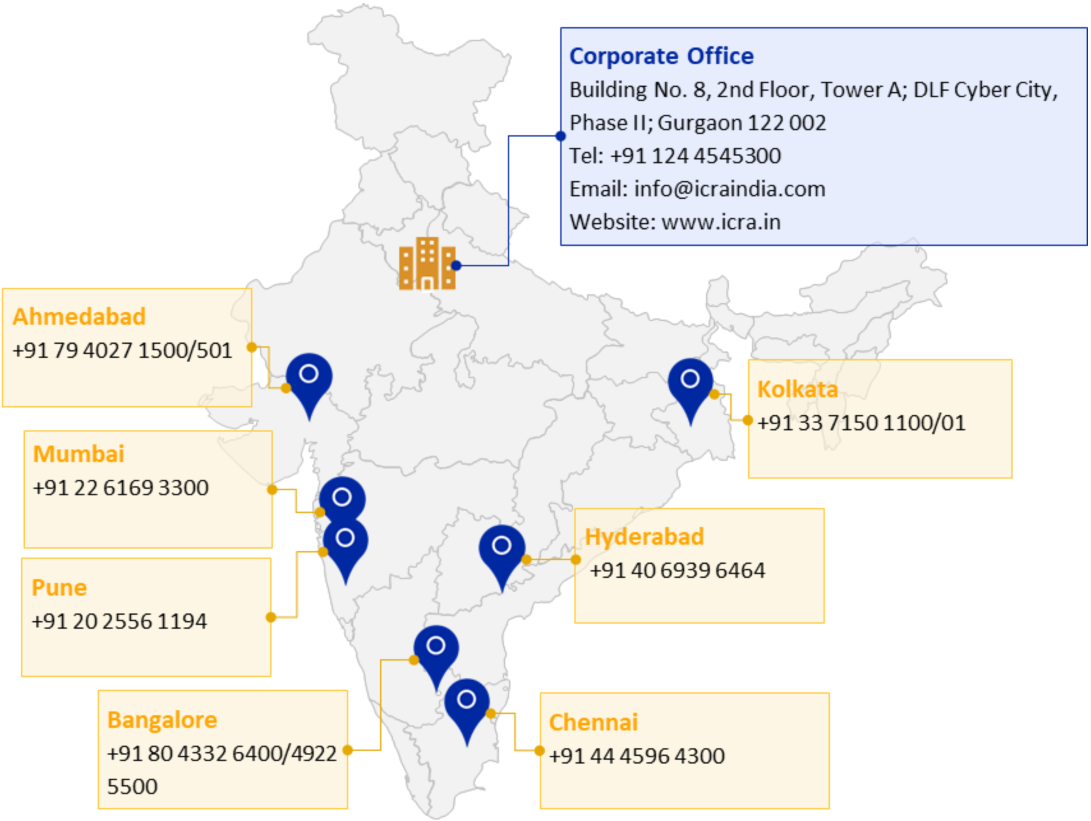

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