June 26, 2023

Uday Jewellery Industries Limited: 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 Fund-based – Cash Credit	35.00	35.00	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Stable)
Long-term - Term loan	2.42	2.42	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Stable)
Long-term - Unallocated facilities	3.50	3.50	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Stable)
Total	**40.92**	**40.92**	

**Instrument details are provided in Annexure-I*

Rationale

The rating revision reflects the likely improvement in the financial profile of Uday Jewellery Industries Limited (UJIL) in the coming quarters, driven by steady demand conditions and long relationships with key customers. In the last five years, UJIL's revenues have witnessed a healthy CAGR of ~19% and a net profit of ~30%. The rating also factors in UJIL's comfortable financial risk profile, characterised by a conservative capital structure and adequate credit metrics, with limited dependence on external debt. Key metrics including total outside liabilities to tangible net worth (TOL/TNW) and interest coverage stood at comfortable levels of around 0.6 times and 7.6 times, respectively in FY2023. Going forward, the credit metrics are expected to remain at healthy levels as reliance on external debt is likely to be limited. 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 remains constrained by its small scale of operations and high working capital intensity in the business. The customer concentration is on the higher side with the top five customers accounting for ~65% of the total revenues. However, comfort can be drawn from the fact that UJIL has established relationships with most of these clients, which result in repeat orders. The rating also factors in the intense competition in the gold manufacturing segment, which limits its pricing ability and exposes earnings to fluctuation in gold prices.

The Stable outlook reflects that UJIL's operating and financial performances will continue to benefit from its established track record, long relationship with large jewellery retailers and its comfortable capitalisation levels.

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 eight 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 and recent regulatory changes mandating increased transparency and compliance and mandatory hallmarking are expected to drive a steady growth in revenues over the medium term.

Comfortable financial profile – UJIL's capitalisation levels remain comfortable, driven by steady earnings and no major debt-funded capital expenditure incurred in the last few fiscals. This is despite an increase in the short-term debt levels witnessed in the recent fiscals to fund the rising working capital requirements. The net gearing and total outside liabilities to the tangible net worth stood at 0.5 times and 0.6 times, respectively in FY2023. Further, the coverage indicators have also remained adequate with an interest coverage of more than 7 times in FY2023, supported by limited dependence on external debt. 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, with high reliance on working capital borrowings. 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. 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

Exposure to environmental risks remains low for entities in the jewellery wholesale industry. Few issues of concern 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.

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 including, among other things, a shift towards less gold-intensive daily/fashion jewellery. 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 around ~84% over the last 12 months ended in March 2023. Further, UJIL is expected to generate cash accruals of more than Rs. 10 crore against low annual debt repayments of Rs. 0.2 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 metrics that could lead to a downgrade of ratings include Total Debt/OPBITDA of 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 ratings are 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. UJIL is involved in trading and manufacturing of CZ-studded jewellery with real colour stones. The company's corporate office and manufacturing facilities are in Hyderguda, Hyderabad. The company was listed on the Bombay Stock Exchange in December 2015. The company 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.

Key financial indicators (audited)

UJIL Standalone	FY2022	FY2023
Operating income	121.9	176.7
PAT	5.7	9.5
OPBDIT/OI	6.77%	7.53%
PAT/OI	4.69%	5.38%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	3.3	2.5
Interest coverage (times)	9.2	7.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.no.	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					June 26, 2023	-	March 28, 2022	October 7, 2021	March 10, 2021
1	**Fund based - Cash Credit**	Long Term	35.00	--	**[ICRA]BBB (Stable)**		**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	**Fund based - Term Loan**	Long Term	2.42	1.76	**[ICRA]BBB (Stable)**		**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
3	**Unallocated**	Long Term	3.50	--	**[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 - Term Loan	Simple
Long-term – Unallocated facilities	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	-	-	-	35.00	[ICRA]BBB (Stable)
NA	Term Loan	January 2021	-	January 2025	2.42	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	3.50	[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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