March 10, 2021

Uday Jewellery Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	18.00	15.00	[ICRA]BBB- (Stable); Reaffirmed
Term Loan	0.00	2.42	[ICRA]BBB- (Stable); Reaffirmed
Unallocated	0.00	0.58	[ICRA]BBB- (Stable); Reaffirmed
Total	**18.00**	**18.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in an increase in Uday Jewellery Industries Limited's (UJIL) operating income to Rs. 54.91 crore in 9MFY2021 and Rs. 91.74 crore in FY2020 from Rs. 73.41 crore in FY2019 supported by increased sales volume and higher gold prices. Further, the operating profit margins also improved to 10.9% in 9M FY2021 and FY2020 from 6.72% in FY2019, supported by lower-priced inventory against prevailing gold prices. The revenues are expected to cross Rs. 90 crore in FY2021, supported by healthy orders from its customers while the profit margins are expected to be above 10% in FY2021, supported by lower-priced gold inventory. The rating also factors in UJIL's comfortable financial risk profile with a gearing of 0.12 times, TOL/TNW of 0.13 times as on September 30, 2020 owing to low debt levels, and an interest coverage ratio of 12.98 times in 9MFY2021. Moreover, it has a reputed client profile, comprising jewellery retailers like Kalyan Jewellers India Limited, Malabar Gold Private Limited etc. The rating also considers UJIL's operational linkages with Sanghi Jewellers Private Ltd. (SJPL, rated [ICRA]BBB-/Stable/[ICRA]A3), enabling favourable procurement of imported Cubic Zirconia (CZ) stones. The rating is, however, constrained by the company's small scale of operation with expected revenues of Rs. 90 crore in FY2021, and high working capital intensity of the business owing to high receivables and inventory levels. The rating is also constrained by intense competition in the gold manufacturing segment from a large number of organised manufacturers, limiting its pricing ability and thereby constraining an improvement in margins. Although the company's profit margins are exposed to fluctuation in gold prices, a partial hedging of inventory through gold metal loans mitigates the price volatility risk to an extent.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that UJIL's established customer base and operational linkages with SJPL would support the company's revenue and profit margins in the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of the Group in jewellery manufacturing business – UJIL is a part of the Sanghi Group with the flagship company being Sanghi Jewellers Private Limited, which is into jewellery manufacturing business for more than five decades. Being a part of the Group, UJIL gets support in the procurement of colour stones and is able to leverage customer and supplier relationships. The company has a reputed client base with customers like Kalyan Jewellers India Limited, Malabar Gold Private Limited, Joyalukkas etc.

Improved operating income and margins – The operating income increased to Rs. 54.91 crore in 9M FY2021 and Rs. 91.74 crore in FY2020 from Rs. 73.41 crore in FY2019, supported by increased sales volume and higher gold prices. The revenue was impacted in H1 FY2021 owing to weak consumer demand amid a steep increase in gold prices and falling demand owing to Covid-19 disruptions and lockdown in Q1 FY2021. However, festive season sales supported revenues in Q3 FY2021 and its revenue is expected to cross Rs. 90 crore in FY2021, supported by healthy orders from its customers. Further, the operating profit margin improved to 10.94% and 10.95% in 9M FY2021 and FY2020, respectively from 6.72% in FY2019 owing to lower priced inventory against the prevailing gold prices. As the company follows the weighted average method for inventory valuation, the profit margins increased owing to lower value of inventory and increased gold prices. Further, the profit margins are expected to be above 10% in FY2021, supported by lower priced inventory.

Comfortable financial risk profile – The financial risk profile remains comfortable, as reflected by a gearing of 0.12 times, and TOL/TNW of 0.13 times as on September 30, 2020 owing to low debt levels. The debt is limited to working capital borrowings amounting to Rs. 5.91 crore as on September 30, 2020. Further, the interest coverage stood healthy at 12.98 times in 9M FY2021.

Credit challenges

High working capital intensity – The working capital intensity is high owing to high debtor and inventory days. UJIL's inventory remains high due to high inventory of raw materials maintained for the upcoming confirmed orders. The company provides a credit period of 60-90 days to customers, resulting in high debtor days.

Exposure to gold price volatility – The company's profitability is exposed to volatility in gold prices. However, UJIL procures a part of its gold requirement through Gold Metal Loans (GML), reducing this risk to an extent.

Stringent norms, regulatory reforms and intense competition in the gold sector – The Indian gold industry is exposed to increased regulatory intervention, which impacted the operating environment for all players. Presence of a large number of players (both organised and unorganised) for jewellery customisation results in an intense competition in the gold manufacturing business and thus limits the margins. However, increasing formalisation in the gold sector provides an opportunity for organised players like UJIL.

Liquidity position: Adequate

UJIL's liquidity position remains adequate with cushion available in working capital limits and absence of capex plans. The average monthly utilisation of fund-based working capital limits stood moderate at 61% during the 12-month period ending in February 2021. Further, low annual debt repayments (nil in FY2021; Rs. 0.13 crore in FY2022; and Rs. 0.80 crore in FY2023) against net cash accruals of ~Rs. 4-6 crore between FY2021 and FY2023 would support the company's liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade UJIL's rating if the company demonstrates a healthy growth in revenues and profitability on a 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 factors – Negative pressure on UJIL's rating could arise if there is a decline in revenues or profitability on a sustained basis. An 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 an interest coverage of above 2.50 times on a sustained basis may 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 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 color stones. The company has its corporate office and manufacturing facility in Hyderguda, Hyderabad. The company was listed on the Bombay Stock Exchange in December 2015.

Key financial indicators

Uday Jewellery Industries Limited	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	73.41	91.74	54.91
PAT (Rs. crore)	3.09	6.94	4.94
OPBDIT/OI (%)	6.72%	10.95%	10.94%
RoCE (%)	11.81%	19.55%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.34	0.25	-
Total Debt/OPBDIT (times)	2.33	1.02	-
Interest Coverage (times)	5.16	11.44	12.98
DSCR (times)	3.42	6.99	-

**provisional; Source: Uday Jewellery Industries Limited*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					10-Mar-2021	11-Mar-2020	14-Mar-2019	26-Feb-2018
1	Cash Credit	Long Term	15.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Term Loan	Long Term	2.42	2.42	[ICRA]BBB- (Stable)	-	-	-
3	Unallocated	Long Term	0.58	-	[ICRA]BBB- (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	-	10.65%	-	15.00	[ICRA]BBB-(Stable)
NA	Term Loan	Jan 2021	7.50%	Jan 2025	2.42	[ICRA]BBB-(Stable)
NA	Unallocated	-	-	-	0.58	[ICRA]BBB-(Stable)

Source: *Uday Jewellery Industries Limited*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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