October 07, 2021

Uday Jewellery Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	15.00	15.00	[ICRA]BBB- (Stable); reaffirmed
Long term - Term Loan	2.42	2.42	[ICRA]BBB- (Stable); reaffirmed
Long-term - Unallocated facilities	0.58	0.58	[ICRA]BBB- (Stable); reaffirmed
Total	**18.00**	**18.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation reflects the expected steady operational and financial performances of Uday Jewellery Industries Limited (UJIL) in the coming quarters, driven by improved demand conditions and long relationships with key customers. UJIL's revenues are expected to grow by more than 15% in FY2022, post the stagnant revenues and earnings witnessed in FY2021. However, its operating margins are expected to move back to steady-state levels of 7% in FY2022, post the benefits enjoyed on the back of gold price appreciation over the last two fiscals. 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. With no major expansion envisaged and backed by steady earnings from operations, key ratios including total outside liabilities to tangible net worth and interest coverage are expected to remain at comfortable levels of around 0.3 times and 10.0 times, respectively in FY2022. The ratings also consider 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. UJIL has operational linkages with the Sanghi Group, which enable favourable procurement of imported Cubic Zirconia (CZ) stones and other raw materials. However, the rating remains constrained by its small scale of operations and high working capital intensity in the business. 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 the favourable demand conditions, its established track record and a long relationship with large jewellery retailers and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established presence in the industry – UJPL 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 capital structure remains at comfortable levels, 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 0.2 times and 0.3 times, respectively in FY2021. Further, the coverage indicators have also remained adequate with an interest coverage of more than 10 times in FY2021, supported by limited dependence on external debt.

Credit challenges

High working capital intensity – The working capital intensity remains stretched, characterised by high receivables and inventory days owing to the nature of the business. UJIL's inventory is high as raw materials in large volume are imported for meeting confirmed orders. The company provides a credit period of 90 days to most of its customers, resulting in high debtor days. UJIL's comfortable liquidity position with adequate unutilised lines of credit provides some comfort.

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

Liquidity position: Adequate

UJIL's liquidity position is expected to remain adequate, supported by a steady growth in earnings from operations and adequate unutilised lines of credit. UJIL's cash buffer, including unutilised lines and free cash reserves, stood at around Rs. 5 crore as of September 15, 2021. The average utilisation of its working capital facilities stood at around 58% over the last 12 months ended August 2021. Further, UJIL is expected to generate cash accruals of more than Rs. 5.5 crore against low annual debt repayments of Rs. 0.2 crore and no major proposed capital expenditure in FY2022.

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a healthy growth in revenues and earnings and improves its working capital cycle, which will support its financial profile.

Negative factors – Pressure on the rating will emanate from 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 profile. Specific credit metrics that could lead to a downgrade of ratings include interest coverage of less 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 color 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 and holds a 73.5% stake in the company and the remaining is held by public.

Key financial indicators (audited)

UJIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	91.8	93.4
PAT (Rs. crore)	6.9	5.8
OPBDIT/OI (%)	11.0%	8.1%
PAT/OI (%)	7.6%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDITA (times)	1.0	1.7
Interest Coverage (times)	11.5	13.3

Source: UJIL; PAT: Profit after Tax; OPBDITA: 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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October 07, 2021	March 10, 2021	March 11, 2020	March 14, 2019
1	Fund based/ CC	Long Term	15.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based - Term Loan	Long Term	2.42	2.42	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3	Unallocated	Long Term	0.58	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)

Source: UJIL

Complexity level of the rated instrument

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	15.00	[ICRA]BBB- (Stable)
NA	Term Loan	January 2021		January 2025	2.42	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	0.58	[ICRA]BBB- (Stable)

Source: UJIL

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

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