September 07, 2022

Swarnsarita Jewels India Limited: [ICRA]BB+(Stable), assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	90.74	[ICRA]BB+(Stable); assigned
Long term Fund-based Term Loan	24.71	[ICRA]BB+(Stable); assigned
Total	**115.45**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assignment considers established track record of Swarnsarita Jewels India Limited (SJIL/company) in the gold and diamond industry having a strong customer base and experienced management. In addition to sales in India to large retailers, SJIL exports to the US, the UK, Canada, the UAE etc. In FY2022, SJIL's revenues surged ~46% to ~Rs. 841 crore, supported by an increase in volumes and healthy realisation on the back of favourable demand outlook. However, the ratings remain constrained due to low operating margins, which keep the absolute profit at low level, despite an increase in the scale. Lower profitability led to moderate debt coverage indicators with an interest cover of ~1.5 times in FY2022. Going forward, the debt coverage indicators are expected to continue to remain at moderate levels. The liquidity remained comfortable with free cash and bank balance of ~Rs. 20 crore as on March 31, 2022 and cushion in its working capital limits. Further, the rating considers intense competition prevailing in the gold industry from organised as well as unorganised players, which limits the company's pricing flexibility and margins, and the vulnerability of earnings to volatility in gold prices and regulatory risks. Moreover, ICRA notes that SJIL has exposure to its subsidiary company, which is not generating enough returns and any further exposure to the subsidiary will remain a key monitorable.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from its established track record and experienced management and increasing shift towards organised players due to higher regulations.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of the company in the industry – Established in 1992, SJIL has an established presence of over three decades in the gold and diamond industry. Over the years, the company has been able to add new customers and retain its existing customers. In the domestic market, its key customers include all major retailers with which, the company enjoys long relationship. In addition, it exports to the US, the UK, the UAE and Canada. It is managed by Mr. Mahendra Chrodia, Managing Director, who has over 20 years of experience in the industry.

Healthy improvement in scale in FY2022; expected to sustain – During FY2018-FY2020, revenues remained steady in the range of ~Rs. 485-560 crore. In FY2021, the company's volumes were significantly lower due to the pandemic and a sharp increase in gold prices, resulting in lower demand. However, the revenues remained steady at ~Rs. 575.6 crore, supported by strong gold realisation. In FY2022, while the realisations remained steady at FY2021 level, favourable demand outlook for gold resulted in a healthy increase in volumes. Thus, revenues grew by ~46% to Rs. 841 crore in FY2022. This improvement in scale is likely to continue in the near term. Moreover, the liquidity position remains comfortable with free cash and FD balance of ~Rs. 20 crore as of March 2022 and unutilised working capital limits.

Credit challenges

Low operating margin and moderate financial risk profile – The operating margin remained low at ~1.1-1.4% during the last five years, except in FY2021, when it increased to ~2% due to inventory gains on account of a sharp increase in gold prices. As a result, despite an increase in scale, the absolute profit remained low. Additionally, the financial risk profile of the company remained moderate. SJIL had a total debt of Rs. 126 crore as on March 31, 2022, which comprised a mix of term loans (GECL) and working capital debt, resulting in a gearing of ~1.1 times in FY2022. Lower margins resulted in moderate debt protection indicators with an interest cover of ~1.5 times in FY2022. The cash accruals are expected to remain in the range of Rs. 6-7 crore, which may be impacted in case of lower-than-expected operating margins. The debt protection metrics are also expected to remain moderate.

Exposure to intense competition, gold price volatility and regulatory risks – Intense competition from unorganised players in the manufacturing segment and other established brands in the retail segment limit the company's pricing flexibility and bargaining power to some extent, eroding its profitability and exposing its earnings to fluctuations in gold prices. Further, increased regulatory intervention in the jewellery industry in the recent years has impacted the demand and supply scenario in the industry. Measures like 20/80 restriction on imports, limited access to Gold Metal Loans (GML) (albeit for a brief period), mandatory Permanent Account Number (PAN) disclosure requirement for purchases above Rs. 2 lakh, restrictions on jewellery saving schemes, changes in duty structures, GST implementation, inclusion of jewellery sector under the Prevention of Money Laundering Act (albeit for a brief period) affected both demand and supply. Nevertheless, the mandatory hallmarking of gold jewellery is expected to benefit organised players like SJIL.

Investments in subsidiary not generating enough returns – SJIL has a wholly-owned subsidiary named Swarnsarita Trading Private Limited (STPL) involved in real estate investment and no major operations. SGL had an investment worth Rs. 20.96 crore in STPL in terms of equity capital and long-term advances, as of March 31, 2022. The said advance/investment is not generating adequate returns for SJIL, impacting the RoCE of the entity. Going forward, SJIL is expected to transfer its diamond business to the subsidiary and this exposure is expected to reduce over the medium term. However, any significant increase in exposure to the subsidiary will be a key monitorable.

Liquidity position: Adequate

The firm's liquidity is adequate with steady cash accruals from operations, low long-term debt repayment obligations and no major capex plans. Moreover, free cash and FD balance of ~Rs. 20 crore, along with unutilised working capital limit of ~Rs. 25-30 crore provide additional financial flexibility.

Rating sensitivities

Positive factors – The rating may be upgraded in case of a substantial increase in its scale and profitability, along with an improvement in the debt coverage indicators while maintaining the liquidity position. Specific triggers for a rating upgrade will be an interest cover above ~2.8 times on a sustained basis.

Negative factors – The rating may be downgraded in case of a sharp decline in revenues and earnings, increase in working capital requirement impacting the liquidity position and resulting in an adverse debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financials have been considered.

About the company

Swarnsarita Jewels India Ltd. is a manufacturer and wholesaler of high-end gold and diamond jewellery. Backed by a team of highly experienced individuals, Swarnsarita Jewels India Ltd. has customers pan India and abroad. The Chairman & Managing Director of the company, Mr. Mahendra M Chordia, has more than 20 years of experience in the field of jewellery manufacturing and has a strong goodwill and presence in the market.

Key financial indicators (audited)

SJIL Consolidated	FY2021	FY2022	Q1 FY2023
Operating income	575.7	841.6	207.5
PAT	5.5	7.9	2.7
OPBDIT/OI	2.0%	1.2%	1.8%
PAT/OI	1.0%	0.9%	1.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.2	
Total debt/OPBDIT (times)	10.4	12.3	
Interest coverage (times)	1.8	1.5	1.8

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

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 07, 2022			
1	**Cash credit**	Long term	90.74		**[ICRA]BB+(Stable)**	-	-	-
2	**Term Loan**	Long term	24.71	19.4	**[ICRA]BB+(Stable)**			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term loan	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	90.74	[ICRA]BB+(Stable)
NA	**Term Loan**	FY2021-22	8.1%-8.5%	FY2026-28	24.71	[ICRA]BB+(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

Company Name	SJIL Ownership	Consolidation Approach
Swarnsarita Jewels India Limited	100.00% (rated entity)	Full Consolidation
Swarnsarita Trading Private Limited	100%	Full Consolidation

Source: SJIL annual report FY2022

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About ICRA Limited:

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