September 18, 2023

# Swarnsarita Jewels India 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 | 90.74 | 90.74 | [ICRA]BB+ (Stable); reaffirmed |
| Long term Fund-based Term Loan | 24.71 | 24.71 | [ICRA]BB+ (Stable); reaffirmed |
| **Total** | **115.45** | **115.45** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation considers the steady financial performance of Swarnsarita Jewels India Limited (SJIL/company) expected in FY2024 with a revenue growth of 10-12% and steady operating margins. In FY2023, SJIL's revenues remained stable at FY2022 level, supported by an increase in realisation, while the volumes declined by ~6%. The operating margins remained low at ~1.5%, keeping the absolute profits at a low level, despite an increase in the scale. ICRA notes that in Q1 FY2024, the profitability has substantially increased, however, some portion of the same is notional in nature. The margins are likely to be in the range of 1.5-2% in FY2024. Lower profitability led to moderate debt coverage indicators with an interest cover of ~1.7 times and TOL/TNW of ~1.1 times in FY2023. Going forward, the debt coverage indicators are expected to continue to remain at a moderate level. The liquidity remained comfortable with free cash and bank balance of ~Rs. 18-20 crore as on March 31, 2023. The ratings continue to consider an established track record of SJIL 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. Further, the rating is constrained by the 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 was not generating enough returns in the past. In FY2023, SJIL has transferred the diamond and polki business to the subsidiary, which is likely to witness a substantial improvement in FY2024. However, any further large exposure to the subsidiary will remain a key monitorable.

## Key rating drivers and their description

### Credit strengths

**Steady financial performance likely to continue in FY2024** – Till FY2021, the company's revenues remained steady in the range of Rs. 485-560 crore. In FY2022, while the realisations remained steady at FY2021 level, favourable demand outlook for gold resulted in a healthy increase in volumes, leading to an increase in revenues by ~46% to Rs. 841 crore. In FY2023, SJIL's revenues remained at FY2022 level, supported by an increase in realisation, while the volumes declined by ~6%. This improvement in scale is likely to continue in the near term. ICRA notes that in Q1 FY2024, the profitability has substantially increased, however, some portion of the same is notional in nature. The margins are likely to be in the range of 1.5-2% in FY2024. Moreover, the liquidity position remains comfortable with free cash and FD balance of Rs. 18-20 crore as of March 2023.

**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 Chordia, Managing Director, who has over 20 years of experience in the industry.

### Credit challenges

**Low operating margin and moderate financial risk profile** – The operating margin remained low at 1.5-2%. 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. 121 crore as on March 31, 2023, which comprised a mix of term loans (GECL) and working capital debt, resulting in a gearing of ~1 times in FY2023. Lower margins resulted in moderate debt protection indicators with an interest cover of ~1.7 times in FY2023. The cash accruals are expected to remain in the range of Rs. 8-9 crore, which might be impacted in case of lower-than-expected operating margins. The debt protection metrics are also expected to remain moderate, going forward.

**Exposed 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 like restriction on imports, disclosure of PAN above a threshold limit, changes in duty structure, GST implementation in the recent years etc. have impacted the demand and supply scenario in the industry. 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), which was involved in real estate investment till FY2022. SJIL has an investment worth Rs. 20.96 crore in STPL in terms of equity capital and long-term advances, as of March 31, 2023. The said advance/investment was not generating adequate returns for SJIL, impacting its RoCE. In FY2023, SJIL had transferred its diamond and polki business to the subsidiary, which generated ~Rs. 21 crore of revenue in FY2023. Going forward, the same is expected to improve substantially. 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 obligation and no major capex plans. Moreover, free cash and fixed deposit balance of ~Rs. 18 crore as on March 31, 2023, provide additional financial flexibility.

## Rating sensitivities

**Positive factors –** The rating may be upgraded in case of a substantial increase in the company's scale and profitability, along with an improvement in the debt coverage indicators while maintaining the liquidity position. Specific trigger 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. Any increase in working capital requirement, impacting the liquidity position and resulting in an adverse debt protection metrics, could put pressure on the rating.

## 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. (SJIL) is a manufacturer and wholesaler of high-end gold and diamond jewellery. Backed by a team of highly experienced individuals, SJIL 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 | FY2022 | FY2023 | Q1FY2024 |
|---|---|---|---|
| **Operating income (Rs. crore)** | 841.6 | 839.9 | 194.3 |
| **PAT (Rs. crore)** | 7.9 | 6.3 | 5.6 |
| **OPBDIT/OI (%)** | 1.2% | 1.6% | 4.9% |
| **PAT/OI (%)** | 0.9% | 0.7% | 2.9% |
| **Total outside liabilities/Tangible net worth (times)** | 1.2 | 1.1 | |
| **Total debt/OPBDIT (times)** | 12.3 | 9.1 | |
| **Interest coverage (times)** | 1.5 | 1.7 | 4.6 |

*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 rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2023 (Rs. crore) | Date & rating | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Sep 18, 2023 | Sep 07, 2022 | - | - |
| **1** | **Fund based – Cash credit** | Long-Term | 90.74 | - | **[ICRA]BB+ (Stable)** | [ICRA]BB+ (Stable) | - | - |
| **2** | **Fund based – Term Loan** | Long-Term | 24.71 | 23.57 | **[ICRA]BB+ (Stable)** | [ICRA]BB+ (Stable) | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Cash credit** | Simple |
| **Long term Fund-based 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 / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Long-term Fund-based – Cash credit** | NA | NA | NA | 90.74 | [ICRA]BB+ (Stable) |
| **NA** | **Long term Fund-based Term Loan** | FY2021-22 | 8.5%-9% | 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 | Ownership | Consolidation Approach |
|---|---|---|
| **Swarnsarita Jewels India Limited** | 100.00% (rated entity) | Full Consolidation |
| **Swarnsarita Trading Private Limited** | 100.00% | Full Consolidation |

*Source: Company*

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## About ICRA Limited:

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