November 27, 2024

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-I*

Rationale

The rating reaffirmation considers the steady financial performance of Swarnsarita Jewels India Limited (SJIL) in FY2024 with an improvement in the operating profit margin (OPM) to 1.8% from 1.6% in FY2023. In FY2024, though SJIL's revenues moderated by ~8%, the margins have shown some improvement, supported by an increase in realisation, while the volumes declined significantly by ~24%. In H1 FY2025, the OPM of the company increased to 3.3% from 2.5% in H1 FY2024, however, some portion of the same is notional in nature. Despite a likely decline in volume, a sharp rise in gold prices in the current fiscal is likely to result in some improvement in revenue in FY2025. ICRA expects the OPM to be in the range of 1.8-2.0% in the near term. A marginal increase in inventory holding and a rise in the receivable days led to a rise in the working capital intensity of operations to 25% in FY2024 from 22% in FY2023. Low profitability led to moderate debt coverage indicators with an interest cover of ~1.6 times and TOL/TNW of 1.0 times in FY2024. 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. 20 crore as on March 31, 2024.

The ratings continue to consider the 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. 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, Swarnsarita Trading Private Limited (STPL), which is currently not generating enough returns, however, gradual improvement is expected over the near term. In FY2023, SJIL transferred the diamond jewellery business to STPL. However, any further large exposure to the subsidiary will remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that SJIL will continue to benefit from its established operational track record, enabling it to maintain an adequate financial profile.

Key rating drivers and their description

Credit strengths

Steady financial performance likely to continue in FY2025 – In FY2024, SJIL's revenue moderated ~8% compared to FY2023, driven by a significant volume decline of ~24%, although realisations improved by ~12%, leading to an increase in OPM to ~1.8% from ~1.6% in FY2023. ICRA notes that in H1 FY2025, the profit margin has increased to 3.3% from 2.5% in H1 FY2024, however, some portion of the same is notional in nature. The margins are likely to remain in the range of 1.8-2.0% in the near term. Moreover, the liquidity position remains comfortable with free cash and FD balance of ~Rs. 20 crore as of March 31, 2024.

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 to a large extent. In the domestic market, its key customers include all major retailers with which the company enjoys long relationships. 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 of the company remained low historically and was in the range of 1.6-1.8% over the last couple of years. The financial risk profile of the company has remained moderate. SJIL had a total debt of Rs. 107.7 crore as on March 31, 2024, which comprised a mix of term loans (GECL) and working capital debt, resulting in a gearing of 0.9 times in FY2024. Lower margins resulted in moderate debt protection indicators with an interest cover of 1.6 times in FY2024. The cash accruals are expected to remain in the range of Rs. 6-8 crore in the near-to-medium term, which might be impacted in case of lower-than-expected operating margins. No major improvement in the debt protection metrics is expected in the near term.

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 limits the company's pricing flexibility and bargaining power, 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, STPL, which was involved in real estate investment till FY2022. SJIL has an investment worth Rs. 67.4 crore in STPL in terms of equity capital and long-term advances, as of March 31, 2024. The said advance/investment is currently not generating adequate returns for SJIL, impacting its RoCE. In FY2023, SJIL had transferred its diamond jewellery business to the subsidiary, which generated Rs. 88.5 crore of revenue in FY2024 with a net loss of Rs. 0.41 crore. Going forward, the same is expected to improve gradually. However, any significant increase in exposure to the subsidiary will remain a key monitorable.

Liquidity position: Adequate

The company's liquidity is adequate with steady cash accruals from operations and positive fund flow from operations in FY2024. Nevertheless, the cash flow from operations turned negative in FY2024 due to increase in the working capital requirement, though the same is likely to turn positive in FY2025. Although the company does not have any major capex plan, its long-term debt repayment obligations remain high compared to its cash accruals in FY2025 and FY2026. Nevertheless, free cash and fixed deposit balance of ~Rs. 20 crore as on March 31, 2024, and buffer in the working capital limit provide 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.

The company has a wholly-owned subsidiary, Swarnsarita Trading Private Limited (STPL), which trades in diamond jewellery (transferred from SJIL in FY2023). In FY2024, the trading of diamond jewellery generated a significant revenue of Rs. 88.5 crore (against Rs. 21.3 crore in FY2023), though the margins have dropped due to increased administrative and employee expenses.

Key financial indicators (audited)

SJIL Consolidated	FY2023	FY2024	H1 FY2025*
Operating income	840.0	769.8	384.8
PAT	6.3	4.8	7.0
OPBDIT/OI	1.6%	1.8%	3.3%
PAT/OI	0.7%	0.6%	1.8%
Total outside liabilities/Tangible net worth (times)	1.1	1.0	1.0
Total debt/OPBDIT (times)	9.0	7.7	8.5
Interest coverage (times)	1.7	1.6	3.5

*Source: Company, ICRA Research; *Provisional Numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 27, 2024	Sep 18, 2023	Sep 07, 2022	-
1	**Fund based – Cash credit**	Long-term	90.74	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	-
2	**Fund based – Term loan**	Long-term	24.71	**[ICRA]BB+ (Stable)**	**[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	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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