September 25, 2019

Indian Gem & Jewellery Imperial Private Limited: Rating downgraded to [ICRA]D; Rating continues to remain under 'Issuer Not Cooperating' category

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits – Cash Credit	30.00	30.00	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]BB (Stable) ISSUER NOT COOPERATING#
Untied Limits	5.00	5.00	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]BB (Stable) ISSUER NOT COOPERATING#
Total	**35.00**	**35.00**	

**Issuer did not co-operate; based on best available information.*
^Instrument details are provided in Annexure-1
#Issuer not cooperating due to NDS non submission

Rationale

The downward revision in the rating primarily considers unfavourable debt-serving track record of Indian Gem & Jewellery Imperial Private Limited (IGJIPL) in the recent past, as confirmed by the lender. The rating is also impacted by the IGJIPL's weak financial profile, characterised by a leveraged capital structure and weak debt coverage indicators. The rating is constrained by the high level of inventory required to support IGJIPL's business, which leads to high working capital requirements, impacting its liquidity position. The company's profitability is exposed to adverse movement in gold prices. ICRA also notes that the intense competition in the industry, characterised by the presence of many organised and unorganised players, keeps margins under check. The rating also factors in the company's exposure to geographical concentration (as its major operations are concentrated in Kolkata at present) and regulatory risks. Any adverse change in government regulations may negatively impact the company's business risk profile.

The rating, however, consider promoters' experience in the jewellery business, with a track record of over two decades and the favourable locations of the showroom in prime locations of the city.

Key rating drivers and their description

Credit strengths

Experience of the promoter in the jewellery business – The promoter has experience of over two decades in the jewellery business. The promoter was earlier involved in the jewellery business through Indian Gem & Jewellery Private Limited. However, the same was demerged in FY2007 and accordingly, IGJIPL was formed. The promoters' track record in the business mitigates the operational risk to an extent.

Favourable locations of the showroom –The location of the showrooms at prime places provides easy accessibility to its target customers.

Credit challenges

Delays in servicing of debt obligations – The company has delayed in timely servicing of debt obligations in the recent past due to its stretched liquidity position, leading to overutilisation in the working capital facility for more than 30 consecutive days.

Intense competition in the highly fragmented wholesale jewellery industry — The domestic gems and jewellery industry is highly fragmented in nature and is characterised by intense competition. IGJIPL not only faces competition from unorganised players, but also from a few well-established organised players. Moreover, it operates at a wholesale level, where the competition is more pronounced and in turn keeps margins under pressure.

Weak financial profile characterised by a leveraged capital structure and depressed coverage indicators – The capital structure of the company continued to remain leveraged, as depicted by a gearing of 1.36 times as on March 31, 2018 (provisional) compared to 1.48 times as on March 31, 2017. High debt levels coupled with low profitability kept the coverage indicators depressed as reflected by an interest coverage of 1.41 times, NCA/total debt of 3.9% and TD/OPBDITA of 5.08 during FY2018.

High working capital intensity of operations — Jewellery business is inherently working capital intensive because of the sizeable inventory required to be maintained across showrooms. Moreover, rise in inventory holding and receivables position led to an increase in the NWC/OI from 27% as on March 31, 2017 to 31% as on March 31, 2018. This in turn, exerted pressure on the company's liquidity position and stretched the payables as on March 31, 2018.

Exposure to fluctuations in gold prices and regulatory risk - The jewellery retail industry has been witnessing increased regulatory intervention in the last few years which impacted the operating environment and consequently the performance of the jewellers. Revenue growth and margins remain susceptible to fluctuations in gold prices, which in turn are impacted by regulatory interventions. Any adverse policy decision leading to unfavourable movement in gold prices could impact demand prospects and profitability.

Liquidity position: Poor

IGJIP's liquidity remains poor as reflected in delays in the debt servicing obligations by the entity.

Rating sensitivities

Positive triggers – Regularisation of debt servicing on a sustained basis (more than three months), following improvement in liquidity profile of the entity.

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Gold Jewellery Retail Industry Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financial statements of the entity

About the company

Incorporated in November 2006 by Mr. Prasanna Dugar, IGJIPL is involved in manufacturing and trading of gold, diamond and stone-studded jewellery. The promoter was earlier involved in the jewellery business through Indian Gem & Jewellery Private Limited. However, the same was demerged in FY2007 and accordingly, IGJIPL was formed. The company earns revenue from both wholesale and retail sales.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	208.38	184.68
PAT (Rs. crore)	1.14	1.21
OPBDIT/OI (%)	3.10%	3.64%
RoCE (%)	10.92%	11.02%
Total Outside Liabilities/Tangible Net Worth (times)	2.77	4.57
Total Debt/OPBDIT (times)	5.52	5.08
Interest Coverage (times)	1.37	1.41
DSCR	1.29	1.31

Status of non-cooperation with previous CRA

CRA	Status of non-cooperation	Date of Press Release
CRISIL Limited	Rating Suspended	June 1, 2015
SMERA	SMERA BB- Issuer Not Cooperating	March 31, 2017

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					25-Sep-2019	17-June-2019	16-Aug-2018	2-Aug-2017	-
1	Cash Credit	Long Term	30.00	-	[ICRA]D; ISSUER NOT COOPERATING*	[ICRA]BB (Stable); ISSUER NOT COOPERATING#	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Untied Limits	Long Term	5.00	-	[ICRA]D; ISSUER NOT COOPERATING*	[ICRA]BB (Stable); ISSUER NOT COOPERATING#	[ICRA]BB (Stable)	-	-

* *Issuer did not co-operate; based on best available information.*

\# *Issuer not cooperating due to NDS non-submission*

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 www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	30.00	[ICRA]D; ISSUER NOT COOPERATING*
-	Untied Limits	-	-	-	5.00	[ICRA]D; ISSUER NOT COOPERATING*

Source: IGJIPL

**Issuer did not co-operate; based on best available information.*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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