October 20, 2020

Sanghi Jewellers Pvt. Ltd.: 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	62.00	62.00	[ICRA]BBB- (Stable); reaffirmed
Long Term-Unallocated	1.00	1.00	[ICRA]BBB- (Stable); reaffirmed
Total	**63.00**	**63.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation positively factors in the extensive track record of Sanghi Jewellers Pvt. Ltd (SJPL) in the studded stone jewellery manufacturing and established relationships with reputed jewellery retail chains such as Kalyan Jewellers India Limited, Malabar Gold Pvt. Ltd, Joyalukkas, etc. The rating positively factors in the expected increase in its operating profit margins in FY2021 owing to benefits arising from reduced fixed expenses, increased gold prices and lower value of inventory.

However, the rating is constrained by the expected decline in SJPL's revenues in FY2021 owing to the weak demand outlook amid high gold prices and moderate customer concentration risk with top five customers accounting for 49% of FY2020 revenues. The rating is also constrained by moderate financial risk profile, characterised by a gearing of 1.14 times as on March 31, 2020, interest coverage of 2.60 times and Total Debt/ OPBITDA of 4.82 times in FY2020, with the high working capital-intensive nature of its operations due to high inventory and debtor levels. ICRA also notes the exposure of the company's profit margins to foreign exchange fluctuation risk, considering the absence of any hedging policy for exports, which accounted for 27% of revenues in FY2020.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SJPL's operating profit margins will improve in the near term.

Key rating drivers and their description

Credit strengths

Experienced promoters in jewellery industry – SJPL is a part of the Hanumant Rai Sanghi Group, which has more than eight decades of experience in manufacturing gold jewellery. Through SJPL, since 1993, the Group has entered into studded stone jewellery manufacturing. Its manufacturing facility is located in Hyderabad.

Established relationship with reputed customers – The company has established relationship with jewellery retailers such as Malabar Gold Private Limited, Kalyan Jewellers India Limited, Joyalukkas India Pvt. Ltd, in the domestic as well as export market as reflected by repeated orders. The customer concentration risk is moderate with the top five customers accounting for 49.71% of its revenue in FY2020.

Improved operating profit margins – The company's operating profit margin improved to 5.17% in FY2020 from 4.81% in FY2019 benefitting from the lower inventory price. Further, the operating profit margin is expected to improve in FY2021 on the back of reduced fixed expenses, increased gold prices and lower value of inventory.

Credit challenges

Expected decline in revenue in FY2021 – The company's revenue increased to Rs. 284.71 crore in FY2020 from Rs. 237.48 crore in FY2019, supported by increased sales volume and sales realisation. However, the revenue is expected to decline in FY2021 owing to weak consumer demand affected by the Covid-19 disruptions and high gold prices.

Moderate financial risk profile – The financial risk profile remained moderate, characterised by a gearing of 1.14 times as on March 31, 2020, interest coverage of 2.60 times and TD/ OPBITDA of 4.82 times in FY2020. SJPL's debt profile remained skewed towards working capital debt of Rs. 55.88 crore (~79%), followed by Rs. 12.10 crore of unsecured loans from directors and Rs. 2.99 crore of vehicle loans as on March 31, 2020.

High working capital-intensive nature of operations – SJPL's working capital intensity remained high at 42% in FY2020 owing to high inventory and debtor days. The working capital limit utilisation remained high at above 75% till June 2020, but declined to less than 50% over the past three months owing to realisation of debtors and reduced inventory levels. Further, the working capital requirement is expected to come down in the near term, considering the decline in its inventory to 60-70 kg from earlier 100 kg and receivables.

Exposure to foreign currency fluctuation risk – SJPL's profit margin is exposed to currency fluctuation risk, given the absence of any hedging policy for its export sales. Further, it derived 27% of its revenue from export sales in FY2020, which increased from 21% in FY2019. However, the company had foreign exchange fluctuation gain of Rs. 1.24 crore in FY2020 compared to a loss of Rs. 0.19 crore in FY2019.

Liquidity: Adequate

The liquidity position is **adequate** with average monthly utilisation of 76% during the past 12-month period ending in September 2020. The company is expected to incur capex of around Rs. 1.00-1.50 crore towards maintenance and has annual debt repayment obligation of Rs. 7.88 crore against cash flows of more than Rs. 25.00 crore in FY2021, supporting its liquidity position in the near term.

Rating sensitivities

Positive triggers – ICRA could upgrade SJPL's rating if the company demonstrate healthy growth in revenues and profit margins on a sustained basis. Specific credit metrics that could lead to an upgrade of rating include interest coverage of more than 3.50 times on a sustained basis.

Negative triggers – Negative pressure on SJPL's rating could arise if there is a decline in its profitability on a sustained basis. Increased working capital cycle or prolonged impact of the Covid-19 pandemic adversely impacting the financial performance and liquidity position may put negative pressure on its rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SJPL is a part of the Hanumant Rai Sanghi Group and is a manufacturer and exporter of stone-studded jewellery in India. It was established in 1928 as proprietary firm and later converted into a private limited company in 1999. It has branches in Chennai and Mumbai with a registered office at Hyderabad. The company manufactures coloured, precious stone and gem-studded gold jewellery with a product portfolio encompassing rings, bangles, long necklaces and bracelets. SJPL has its manufacturing facility in Hyderguda, Hyderabad.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	237.48	284.71
PAT (Rs. crore)	4.00	7.35
OPBDIT/OI (%)	4.81%	5.17%
PAT/OI (%)	1.68%	2.58%
Total Outside Liabilities/Tangible Net Worth (times)	1.38	1.30
Total Debt/OPBDIT (times)	6.21	4.82
Interest Coverage (times)	2.29	2.60

**provisional; source:SJPL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					20-Oct-2020	23-Jul-2019	06-Jun-2018	15-May-2017
1	Cash Credit	Long Term	62.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Unallocated	Long Term	1.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Amount in Rs. crore

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
NA	Cash Credit	-	9.75%	-	62.00	[ICRA]BBB- (Stable)
NA	Unallocated	-		-	1.00	[ICRA]BBB- (Stable)

Source: Sanghi Jewellers Pvt. Ltd.

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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.

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