Press Release

Saj Jewellery Pvt Ltd

December 27, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities (Proposed)	1.00	IVR BB /Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities	10.50	IVR A4+ (IVR A Four Plus)	Assigned
Total	**11.50**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Saj Jewellery Private Limited (SJPL) derives comfort from its experienced promoters, established relationship with overseas customers, order backed nature of business, improvement in scale of operation coupled with improvement in profitability and prudent risk mitigation measures in place . However the rating strengths are tempered by high geographical and customer concentration risks, presence in a highly fragmented and competitive jewellery industry and working capital intensive nature of operation. The ratings also factor in its weak financial risk profile marked by small worth base, leveraged capital structure and moderate debt protection metrics.

Key Rating Sensitivities:

Upward Rating Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in the capital structure

Downward Rating Factors:

- Elongation of operating cycle
- Moderation in the capital structure with further deterioration in overall gearing

List of Key Rating Drivers with detailed description

Key Rating Strengths

- **Extensive experience of the promoters in the Jewellery Business**

SJPL was promoted by Mr. Ram Kumar Jaiswal having an experience of more than two decades in the jewellery business. He looks after the overall business operations of the company. He is ably supported by his nephew Mr. Krishna Jaiswal and his wife Papiya Jaiswal, having experience of about 14 years and 20 years respectively in the same line.

- **Established relationship with overseas customers**

The Group exports jewellery to the UAE-based wholesalers which in turn supply to wholesalers in other countries as the UAE is the hub of international trade in gold. The Group's established relationship with its clients in the UAE helps generate repeat orders.

- **Order backed nature of business**

The company's operations are order backed in nature, wherein it receives orders from its export customers based on which it procures gold from banks, leading to minimal inventory holding risk with respect to the manufacturing segment.

- **Improvement in scale of operation coupled with improvement in profitability**

On a combined basis, the total operating income of the group witnessed an erratic trend over the last three years; it grew by 15.79% y-o-y in FY19 to Rs.210.73 crore from Rs.181.99 crore in FY18. The increase in operating income is driven by increase in demand of its exported gold manufactured jewellery resulting in increase in sales realisation of the same. With increase in top line, EBITDA margin also improved from 2.89% in FY18 to 3.15% in FY19 with an improvement in PAT margin to 0.60% in FY19 from 0.36% in FY18.

On a standalone basis, the total operating income of the company witnessed an erratic trend over the last three year FY17-FY19 with a y-o-y growth of ~68.62% from Rs.15.69 crore in FY18 to Rs.26.46 crore in FY19. However, EBITDA margin dipped slightly from 4.07% to 3.43% on account of slight increase in gold procurement prices during the year. Further, PAT margin improved to 0.60% in FY19 from 0.29% in FY18.

- **Prudent risk mitigation measures in place**

The company's primary source of funding is gold metal loan (GML), wherein it procures gold physically from banks and fixes the notional price while taking it from bank. They fix the price, once the price is fixed by its customers, thereby minimizing risk with respect to fluctuation in gold prices. Further, the price of gold is fixed in USD with banks as well as with its export customers, thereby providing a natural hedge with respect to foreign exchange fluctuations.

Key Rating Weaknesses

- **Leveraged capital structure and moderate debt protection metrics**

On a combined basis, the group's capital structure is leveraged, marked by overall gearing of 3.33x as on March 31, 2019 (3.36x as on March 31, 2018). However, the group has minimal long-term debt and its total debt consists mainly of working capital borrowings, mainly in the form of Gold Metal Loan availed from banks. Driven by its working capital borrowings and low cash accruals, Total debt/gross cash accruals stood high at 54.45 years in FY19 (88.72 years as on March 31, 2018). The debt protections parameters are also moderate, marked by interest coverage ratio of 1.30x in FY19 (1.22x in FY18) and DSCR of at 1.26x in FY19 (1.17x in FY18).

On a standalone basis, the SJPL's capital structure is leveraged marked by overall gearing of 3.67x as on March 31, 2019 (4.06x as on March 31, 2018). SJPL has no long-term debt and its total debt consists mainly of working capital borrowings, mainly in the form of Gold Metal Loan availed from banks. Total debt/gross cash accruals stood at 62.61 years in FY19 (194.94 years as on March 31, 2018). Further the debt protections parameters are also moderate, marked by interest coverage ratio of 1.32x in FY19 (1.11x in FY18) and DSCR of at 1.23x in FY19 (1.08x in FY18).

- **High geographical and customer concentration risks**

The Group remains exposed to high geographical concentration risks as almost the entire revenue is derived from the UAE. Moreover, the Group’s clientele comprises only a few large wholesalers, giving rise to client concentration risks.

- **Presence in a highly fragmented and competitive jewellery industry**

The jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated G&J manufacturers leading to high competitive intensity. However, larger integrated G&J players with strong sourcing relationships for raw material, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy are likely to exhibit more stable credit profiles.

- **Working Capital Intensive Nature of Operation**

On a combined basis, the group extends a credit period of around 3-4 months to its customers, whilst holding an inventory of around 15 days. The group pays to its suppliers in around 20-25 days, resulting in a cash conversion cycle of 124 days during FY19. Further, average utilisation of its group also stood high at ~95% during the past 12 months ended October 2019.

On a standalone basis, SJPL's extends a credit period of around 3-4 months to its customers, whilst holding an inventory of around 15-20 days, resulting in a cash conversion cycle of 131 days during FY19. Further, SJPL's average utilisation also stood high at ~97% during the past 12 months ended October 2019.

Analytical Approach: For arriving at the ratings, INFOMERICS analytical team has combined the financials of Jais Jewellery Pvt Ltd (JJPL), Jinaehat Export Pvt Ltd (JEPL), and Saj Jewellery Pvt Ltd (SJPL) commonly referred as Jinaehat Group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The Jinaehat group on a combined basis has stretched liquidity marked by lower cash accruals against negligible repayment obligations with average utilisation of fund based limits of 95.10% during the past 12 months ended October 2019. The group had free cash and bank balance of Rs.0.28 crore as on March 31, 2019. In the absence of any scheduled term debt repayment in the company, the liquidity position is expected to improve going forward.

On a standalone basis, the liquidity of the company is expected to improve with no long-term debt repayment in FY20 and adequate cash accruals with no planned capex or availment of long-term debt.

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	181.99	210.73
EBITDA	5.27	6.64
PAT	0.66	1.27
Total Debt	63.97	71.04
Tangible Net worth	19.02	21.32
EBITDA Margin (%)	2.89	3.15
PAT Margin (%)	0.36	0.60
Overall Gearing Ratio (x)	3.36	3.33

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Proposed Facility	Long Term	1.00	IVR BB/Stable	-	-	-
2.	Packing credit	Short Term	5.25	IVR A4+	-	-	-
3.	FDBP/FUBD/REBA	Short Term	5.25	IVR A4+			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Facility	-	-	-	1.00	IVR BB /Stable
Packing credit	-	-	Upto 12 months	5.25	IVR A4+
FDBP/FUBD/REBA	-	-	Upto 12 months	5.25	IVR A4+