

**Suvarna Shilpi Jewellers Private Limited**

**January 16, 2020**

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	4.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2	Long Term/Short Term Bank Facilities	20.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)/ IVR A3 (IVR A three)	Assigned
	<b>Total</b>	<b>24.00</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

- The ratings assigned to the bank facilities of Suvarna Shilpi Jewellers Private Limited (SSJPL) derives comfort from its experienced promoters in the jewellery sector leading to established relationship with its customers and prudent working capital management. However, the rating strengths are partially offset by susceptibility of the Gems and Jewellery sector to regulatory changes in India and overseas and intense competition from organised and unorganised players due to low entry barrier. The ratings also considers its leveraged capital structure and moderate debt protection metrics.

**Key Rating Sensitivities:**

**Upward Factor:**

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals on sustained basis
- Improvement in the capital structure and debt protection metrics

**Downward factor:**

- Deterioration in scale of operation coupled with deterioration in profitability on a sustained basis
- Deterioration in the capital structure
- Any regulatory changes
- Impairment in liquidity position

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### **List of Key Rating Drivers with Detailed Description**

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

SSJPL was promoted by Mr. Alpesh Soni (Managing Director) having an experience of around two decades in the jewellery business undertaking all the business and marketing operations of the company. Mr. Rushang Soni is also a director having an experience of around 10 years in jewellery business looks into the designing and production activities of the company.

- **Established relationship with customers**

The Company supplies the jewellery to domestic wholesalers which in turn supply to wholesalers in other countries such as Dubai, Malaysia etc. The company is able to maintain healthy relationship with its clients resulting into repeated orders. The total domestic sales of the company constitutes 75%-80% from wholesale sales whereas rest is from the retail sales.

- **Prudent working capital management**

The Company has an effective receivables management system marked by receivables days ranging from 15 to 20 days driven by high bargaining power with its major wholesalers due to established relationship, inventory holding days at 40 days resulting in cash conversion cycle of 61 days in FY19. Further, SSJPL's average utilisation also stood satisfactory at ~61% during the past 12 months ended October 2019.

### **Key Rating Weaknesses**

- **Susceptible to regulatory changes in India**

One of the important commodity traded in the international market, so trading in gold and gold jewellery is highly influenced by several government policies and regulations, which change from time to time.

- **Exposed to intense competition from organised and unorganised players**

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. The company faces stiff competition from both organised as well as unorganised



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players. The competitive and fragmented nature of the industry impacts the company's profit margins.

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

The net worth stood at of Rs.12.19 crore (considering unsecured loan from promoters as quasi equity) as on March 31, 2019. The SSJPL's capital structure is leveraged marked by overall gearing of 1.82x as on March 31, 2019 though improved from 2.30x as on March 31, 2018 driven by accretion of profit and infusion of subordinated unsecured loan during FY19. However, total indebtedness as reflected by the TOL/TNW remained moderate at 2.37x as on March 31, 2019. The total operating income of the company witnessed a muted y-o-y growth of about 4% in FY19 and the EBITDA and the PAT margin remained thin over the years. With leveraged capital structure coupled with thin profit margin, Total debt/Gross cash accruals stood high at 23.06x as on March 31, 2019 (23.89x as on March 31, 2018). Further the interest coverage ratio also remained moderate at 1.39x in FY19 (1.90x in FY18). During H1FY20, the company has achieved a PBT of ~Rs.0.95 crore on a total operating income of ~Rs.72 crore.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

**Liquidity: Adequate**

The liquidity of the company is expected to improve with minimal long-term debt repayment and adequate cash accruals with no planned capex or avilment of long-term debt. Moreover, the average utilisation of fund based limits stood moderate at ~61% during the past 12 months ended October, 2019 indicating an adequate liquidity buffer.

**About the Company**

Incorporated in 2005, Suvarna Shilpi Jewellers Private Limited (SSJPL) is involved in manufacturing, trading of gold jewellery. The registered office and storage facilities of the



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company are located in Ahmedabad, Gujarat. The company has two owned showrooms in Ahmedabad.

### Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	163.24	169.75
EBITDA	2.74	3.35
PAT	0.91	0.85
Total Debt	23.05	22.17
Tangible Net worth	8.68	9.53
EBITDA Margin (%)	1.68	1.97
PAT Margin (%)	0.56	0.50
Overall Gearing Ratio (x)^	2.30	1.82

\*classification as per Infomerics standard

^considering Loan from directors, related parties and group companies has been treated as Quasi-equity

**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.	Long Term Facilities – Cash Credit	Long Term	4.00	IVR BBB- /Stable Outlook	-	-	-
2.	Long Term/Short Term Facilities – Cash Credit/LC/BG	Long Term/Short Term	20.00	IVR BBB- /Stable Outlook /IVR A3	-	-	-

**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](http://www.infomerics.com).

**Name and Contact Details of the Rating Analyst:**

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	4.00	IVR BBB-/Stable
Long Term/Short Term Bank Facilities- CC/LC/BG	-	-	-	20.00	IVR BBB-/ Stable / IVR A3