Press Release

Jinaehat Export Private Limited

March 31, 2022

Rating

Facility	Amount (Rs. crore)	Rating	Rating Action	Complexity Indicator
Short Term Bank Facilities	26.00	IVR A4 (IVR A Four)	Reaffirmed	Simple
Total	**26.00 (Rupees twenty six crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Jinaehat Export Private Limited (JEPL) continues to consider the common management team and operational & financial linkages between JEPL and its group concerns, Jais Jewellery Private Limited (JJPL) and Saj Jewellery Private Limited (SJPL). Infomerics has taken a consolidated view of these entities referred together as Jinaehat group. The ratings continue to derive strength from its experienced promoters, established relationship with overseas customers, order backed nature of business and in place prudent risk mitigation measures. The rating also note improvement in its financial performance in 9MFY22. However, these rating strengths continues to remain constrained by moderation in its scale of operation in FY21 albeit improvement in profitability, leveraged capital structure and moderate debt protection metrics, working capital intensive nature of its operation, presence in a regulated and competitive industry coupled with groups exposure to high geographical & customer concentration risk. The revision in outlook from negative to stable is due to expected improvement in Jinaehat groups financial performance in the near term.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in the capital structure with improvement in overall gearing ratio to below 2.5x
- Improvement in liquidity

Downward Factors

- Moderation in scale of operation and/or moderation in profitability on a sustained basis
- Moderation in the capital structure with further deterioration in overall gearing to over 4x
- Elongation of operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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

The group was promoted by Mr. Ram Kumar Jaiswal (Managing Director) 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 15 years and 21 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 group'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.

- **Prudent risk mitigation measures in place**

The group'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

- **Moderation in scale of operation albeit improvement in profitability**

The total operating income of the company has declined by 31.80% y-o-y basis and stood at Rs.112.33 crore in FY21 as compared to Rs.164.73 crore in FY20. The decline in operating income is driven by decrease in export sales in advent of covid 19 pandemic worldwide since March, 2020. However, notwithstanding the moderation in scale of operation The profit margins of the group has improved marked by improvement of EBITDA margin from 2.87% in FY20 to 4.41% in FY21 mainly driven cost optimization measures taken by the group including curtailment of employee cost coupled with focus on value added relatively high margin products. With rise in EBITDA margin, the PAT margin has also improved to 0.83% in FY21 as compared to 0.69% in FY20. Further, in 9MFY22 the group has reported turnover of Rs.104.23 crore with EBITDA margin of 4.96%, PAT margin of 1.13%

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

On a consolidated basis, the group's capital structure continued to remain moderate, marked by overall gearing of 2.05x as on March 31, 2021 (1.29x as on March 31, 2020). 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 the banks. The debt protections parameters are also moderate, marked by interest coverage ratio of 1.35x in FY21 (1.31x in FY20). Driven by its working capital borrowings and low cash accruals, Total debt/gross cash accruals stood high at 50.52 years as on March 31, 2021 (25.04 years as on March 31, 2020).

- **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.

- **Regulated Industry**

To some extent, the group will remain exposed to regulatory risks in the jewellery segment. This sector had seen heightened regulatory initiatives in the past. For instance, during fiscal 2014, to curb the import of gold, the government introduced 80:20 rule, discontinued gold on lease scheme and modified the gold deposit scheme. Subsequently, in fiscal 2015, the gold on loan scheme was re-started and 80:20 rule was scrapped. Further, since January 2016, the government has mandated jewellers to collect PAN card for all purchases beyond Rs.2 lakhs. The government has also introduced the sovereign gold bond scheme to shift consumer preferences away from physical gold.

- **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 (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), 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 consolidated basis, the group extends a credit period of around 4-5 months to its customers, whilst holding an inventory of around 19 days in FY21. The group pays to its suppliers in around 20-25 days, resulting in a cash conversion cycle of 133 days during FY21. Further, average utilization of its group also stood high at ~88% during the past 12 months ended December 31, 2021.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The group is expected to have an adequate liquidity marked by its adequate cash flow and gross cash accruals as against its debt repayment obligations in the near term. Further, the group has average utilisation of fund-based limits at ~88% during the past 12 months ended December 2021 indicating a moderate liquidity buffer.

About the Company

Incorporated in 2002, Jinaehat Export Private Limited (JEPL) is involved in manufacturing and export of gold jewellery, primarily to the UAE. JEPL is a part of the Jinaehat Group, which includes two more companies, Jais Jewellery Private Limited and Saj Jewellery Private Limited, incorporated in 2010 and 2009, respectively, and are involved in the same line of business. All the three companies have been promoted by one Jaiswal family based in Kolkata, West Bengal, who has more than two decades of experience in the gold business.

Financials: Standalone **(Rs. crore)**

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	38.85	42.41
EBITDA	1.28	1.24
PAT	0.21	0.32
Total Debt	2.32	9.32
Tangible Net worth	6.58	6.91
EBITDA Margin (%)	3.31	2.93
PAT Margin (%)	0.54	0.76
Overall Gearing Ratio (x)**	0.35	1.35

**Classification as per Infomerics' standards.*

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	164.73	112.33
EBITDA	4.73	4.95
PAT	1.13	0.93
Total Debt	29.25	48.57
Tangible Net worth	22.45	23.38
EBITDA Margin (%)	2.87	4.41
PAT Margin (%)	0.69	0.83
Overall Gearing Ratio (x)	1.29	2.05

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Packing Credit	Short term	7.50	IVR A4	IVR A4 (March 01, 2021)	IVR A4+ (December 27, 2019)	-

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
2.	FDBP/FUBD/REBA	Short Term	15.50	IVR A4	IVR A4 (March 01, 2021)	IVR A4+ (December 27, 2019)	-
3.	Bank Guarantee	Short term	3.00	IVR A4	IVR A4 (March 01, 2021)	IVR A4+ (December 27, 2019	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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of the firm at present. 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
Packing Credit	-	-	-	7.50	IVR A4
FDBP/ FUBD/ REBA	-	-	-	15.50	IVR A4
Bank Guarantee	-	-	-	3.00	IVR A4

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
Jais Jewellery Private Limited	Full consolidation
Jinaehat Export Private Limited	Full consolidation
Saj Jewellery Private Limited	Full consolidation

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Jinaehat-Export-lenders-mar22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.