

Press Release**Sumatichand Gouti Jewellers Private Limited****April 18, 2019****Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits	382.00	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)
	Total	382.00	

Details of Facilities are in Annexure 1**Detailed Rationale**

The rating derives strength from experience promoters, order backed nature of business and prudent risk mitigation measures in place. The rating however is constrained by thin profitability margins, leveraged capital structure and moderate debt protection metrics, customer concentration risk, working capital intensive nature of operation, regulated industry, and presence in a highly fragmented and competitive jewellery industry. Improvement in profitability and capital structure are the key rating sensitivities.

List of key rating drivers with detailed description**Key Rating Strengths****Experienced promoters**

Mr. Sumatichand Gouti, the first generation promoter having experience of around four decades in the jewellery making segment, is involved in the day-to-day affairs of the company. He is well supported in the routine operations by management team who have relevant experience in their respective fields.

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.

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 price once the price is fixed 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 Weakness

Thin profitability margins

SGJPL's EBITDA and PAT margins continue to remain thin at 1.25% and 0.27% respectively during FY18, as trading contributes around 50% of the company's total revenue. Further, as discussed with the management, the margins continue to remain thin in the manufacturing segment also as the company caters only to B2B customers, wherein volumes are high but margins are lower.

Leveraged capital structure and moderate debt protection metrics

The company's capital structure is leveraged marked by overall gearing of 3.34x as on March 31, 2018 (3.19x as on March 31, 2017). The company has minimal long-term debt and its total debt consists mainly of fund based and non-fund working capital, mainly in the form of Gold Metal Loan availed from banks.

Customer concentration risk

The company's top customer SCG Jewellers LLC, which has back-to-back arrangement with retailers located in Dubai, accounted for around 52% of the total revenue, resulting in high customer concentration risk. The promoters earlier held some stake in this company; however in 2012-13 SCG Jewellers LLC became an independent entity.

Working Capital Intensive Nature of Operation

The company extends a credit period of around 2-3 months to its customers, whilst holding an inventory of around 12 days. The company does not have any payables, resulting in a cash conversion cycle of 86 days during FY18. Further, the company's average utilisation of its GML also stood high at 92.86% during the past 12 months ended January 2019.

Regulated Industry

To some extent, SGJPL 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 manufacturers leading to high competitive intensity.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

Liquidity

The company had free cash and bank balance of Rs.3.67 crore as on March 31, 2018. In the absence of any scheduled term debt in the company, the liquidity position is expected to be moderate going forward.

About the Company

Sumatichand Gouti Jewellers Pvt. Ltd (SGJPL) was incorporated in January 2005 by Mr. Sumatichand Gouti and his son Mr. Yogendra Gouti, with a vision of establishing its presence in the wholesale jewellery segment. Prior to 2005, Mr. Sumatichand Gouti was involved in the day-to-day affairs of a proprietorship concern which was promoted by his uncle, Mr. Surajmull. The company is engaged in export of handcrafted jewellery and bullion trading business. The

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company currently has its manufacturing facility located in Kolkata. The company only exports in bulk to Dubai, where it has an established customer base which it has built over the years.

Financials (Standalone)

(Rs. crores)

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	1774.05	1590.99
EBITDA	23.88	19.90
PAT	7.30	4.28
Total Debt	334.97	364.57
Tangible Network	105.00	109.26
EBITDA Margin (%)	1.35	1.25
PAT Margin (%)	0.41	0.27
Overall Gearing Ratio (x)	3.19	3.34

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. 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.	Fund Based Limits	Long Term	382.00	IVR BB+/ Stable Outlook	--	--	--

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.

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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 Fund Based Limits:- Bullion Loan for Exporters	--	--	--	125.00	IVR BB+ /Stable Outlook
Long Term Fund Based Limits:-Gold Metal Loans	--	--	--	142.00	IVR BB+ /Stable Outlook
Long Term Fund Based Limits:-CC/BG*	--	--	--	115.00	IVR BB+ /Stable Outlook

*CC Limit is fully interchangeable with BG