

Press Release

M/s. Surajmull Gouti

April 18, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits	75.00	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)
	Total	75.00	

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, proprietorship nature of constitution and withdrawal of capital, 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 who has an experience of around four decades in the jewellery making segment, is involved in the day-to-day affairs of the entity. 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 entity'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 entity'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

SG's EBITDA and PAT margins continue to remain thin at 0.74% and 0.18% respectively during FY18, as trading contributes around 70% of the company's total revenues. 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 entity's capital structure is leveraged marked by overall gearing of 3.13x as on March 31, 2018 (3.90x 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 32% 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 months to its customers, whilst holding an inventory of around 5-10 days. The company does have minimal creditors, resulting in a cash conversion cycle of 56 days during FY18. Further, the company's average utilisation of its GML also stood high at 93.56% during the past 12 months ended January 2019.

Proprietorship nature of constitution and withdrawal of capital

SG, being a proprietorship concern, is exposed to the inherent risk of the capital being withdrawn at the time of personal contingency and the entity being dissolved upon the death/insolvency of the proprietor. Further, a Sole proprietorship firm has restricted access to external funds.

Regulated Industry

To some extent, SG 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 average utilisation of fund based limits was 93.56% for the past 12 months ended January 201, leading to some liquidity cushion. Further the company had free cash and bank balance of Rs.0.15 crore as on March 31, 2018. In the absence of any term debt in the company, the liquidity position is expected to be moderate going forward.

Infomerics Valuation And Rating Pvt. Ltd.



About the Company

M/s Surajmull Gouti (SG) was incorporated in 1950 by Mr. Surajmull Gouti with a vision of establishing its presence in the wholesale jewellery segment. Mr. Sumatichand Gouti, his nephew, looks after the day-to-day affairs of the company at present. Mr. Sumatichand Gouti was a part of this entity since early 1970s. The company is engaged export of handcrafted jewellery and bullion trading business. The 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	553.41	501.95
EBITDA	4.17	3.72
PAT	1.37	0.89
Total Debt	71.88	73.12
Tangible Networth	18.43	23.39
EBITDA Margin (%)	0.75	0.74
PAT Margin (%)	0.25	0.18
Overall Gearing Ratio (x)	3.90	3.13

* 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	75.00	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 :- CC/Gold Metal Loan	--	--	--	75.00	IVR BB /Stable Outlook

*CC limit is fully interchangeable with Gold Metal Loan