March 28, 2022

Uday Jewellery Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based/ Cash Credit	15.00	35.00	[ICRA]BBB- (Stable); assigned/reaffirmed
Long term - Term Loan	2.42	2.42	[ICRA]BBB- (Stable); reaffirmed
Long-term - Unallocated facilities	0.58	3.50	[ICRA]BBB- (Stable); assigned/reaffirmed
Total	**18.00**	**40.92**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action reflects the expected steady operational and financial performances of Uday Jewellery Industries Limited (UJIL) in the coming quarters, driven by steady demand conditions and long relationships with key customers. UJIL's revenues are expected to grow by more than 30% in FY2022 in line with the healthy demand witnessed during the second and third quarters of the fiscal post the second wave of the pandemic. However, its operating margins are expected to moderate to steady-state levels of 7% in FY2022, post the benefits enjoyed on the back of gold price appreciation over the last two fiscals. The rating also factors in UJIL's comfortable financial risk profile, characterised by a conservative capital structure and adequate credit metrics, with limited dependence on external debt. Key metrics including total outside liabilities to tangible net worth (TOL/TNW) and interest coverage are estimated to remain at comfortable levels of around 0.5 times and 9.0 times, respectively in FY2022. Despite the prosed capital expenditure towards setting up machine made jewellery unit funding through debt, ratios including TOL/TNW and interest coverage are expected to remain comfortable at around 0.5 times and 6.0 times, respectively in FY2023. The ratings also consider the established relationships with reputed jewellery retail chains in the domestic as well as export markets, as reflected in repeat business generated over the years. However, the rating remains constrained by its small scale of operations and high working capital intensity in the business. The rating also factors in the intense competition in the gold manufacturing segment, which limits its pricing ability and exposes earnings to fluctuation in gold prices.

The Stable outlook reflects that UJIL's operating and financial performances will continue to benefit from its established track record,a long relationship with large jewellery retailers and its comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established presence in the industry – UJPL is a part of the Hanumant Rai Sanghi Group, which has more than eight decades of experience in manufacturing gold jewellery. This has supported the company in forging established relationships with large jewellery retailers in the domestic as well as export markets, as reflected in repeat business generated over the years. Further, steady demand and recent regulatory changes mandating increased transparency and compliance and mandatory hallmarking are expected to drive a steady growth in revenues over the medium term.

Comfortable financial profile – UJIL's capitalization levels remain comfortable, driven by steady earnings and no major debt-funded capital expenditure incurred in the last few fiscals. This is despite an increase in the short-term debt levels witnessed in the recent fiscals to fund the rising working capital requirements. The net gearing and total outside liabilities to the tangible net worth stood at 0.3 times and 0.4 times, respectively in 9M FY2022. Further, the coverage indicators have also remained adequate with an interest coverage of more than 11 times in 9M FY2022, supported by limited dependence on external debt. With no major expansion envisaged coupled with steady earnings, UJSIL's debt protection metrics are estimated to remain at comfortable levels in FY2022.

Credit challenges

High working capital intensity – The working capital intensity remains stretched, characterised by high receivables and inventory days owing to the nature of the business. UJIL's inventory is high, constrained by its large raw material stock holding which are imported back to back for meeting confirmed orders. The company provides a credit period of 90 days to most of its customers, resulting in high debtor days. UJIL's adequate liquidity position provides some comfort.

Intense competition limits pricing flexibility – The company faces intense competition from unorganised players in the manufacturing segment and other established brands in the market, which limit its pricing flexibility. Besides, high inventory of unhedged raw materials exposes the company's profitability to volatility in gold prices.

Liquidity position: Adequate

UJIL's liquidity position is expected to remain adequate, supported by steady earnings and adequate unutilised lines of credit. The liquidity position is also supported by enhancement in working capital facilities to Rs. 35 crore from Rs. 15 crore in January,2022. UJIL's cash buffer, including unutilised lines and free cash reserves, stood at around Rs. 14 crore as of January 31, 2022. The average utilisation of its working capital facilities stood at around 70% over the last 12 months ended January 2022. Further, UJIL is expected to generate cash accruals of more than Rs. 5 crore against low annual debt repayments of Rs. 0.2 crore and expected equity commitment of Rs. 2.0 crore to fund its proposed capital expenditure of Rs. 7.0 crore (with the rest to be financed by proposed bank term loans).

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a healthy growth in revenues and earnings and improves its working capital cycle.

Negative factors – Pressure on the rating will emanate from any sustained pressure on the operating performance or any further elongation of its working capital cycle, which will adversely impact its coverage metrics and liquidity. Specific credit metrics that could lead to a downgrade of ratings include interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

UJIL is a part of the Hanumant Rai Sanghi Group and was incorporated in May 1999. UJIL is involved in trading and manufacturing of CZ-studded jewellery with real color stones. The company's corporate office and manufacturing facilities are in Hyderguda, Hyderabad. The company was listed on the Bombay Stock Exchange in December 2015. The company is managed by Mr. Ritesh Kumar Sanghi and family, which holds a 73.5% stake in the company and the remaining is held by public.

Key financial indicators (audited)

UJIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	91.8	93.4
PAT (Rs. crore)	6.9	5.8
OPBDIT/OI (%)	11.0%	8.1%
PAT/OI (%)	7.6%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDITA (times)	1.0	1.7
Interest Coverage (times)	11.5	13.3

Source: UJIL; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 28,2022	October 07, 2021	March 10, 2021	March 11, 2020	March 14, 2019
1	Fund based/ CC	Long Term	35.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based - Term Loan	Long Term	2.42	2.42	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3	Unallocated	Long Term	3.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)

Source: UJIL

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund Based/ Cash Credit	Simple
Long term - Term Loan	Simple
Long-term – Unallocated facilities	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	35.00	[ICRA]BBB- (Stable)
NA	Term Loan	January 2021		January 2025	2.42	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	3.50	[ICRA]BBB- (Stable)

Source: UJIL

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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