

April 06, 2022

Sanghi Jewellers Private 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 | 61.50 | 62.50 | [ICRA]BBB- (Stable); assigned/reaffirmed |
| Long-term - Unallocated facilities | 1.50 | 1.50 | [ICRA]BBB- (Stable); reaffirmed |
| Total | 63.00 | 64.00 | |

*Instrument details are provided in Annexure-1

Rationale

The rating action reflects the expected improvement in the performance of Sanghi Jewellers Private Limited (SJPL) in the coming quarters, driven by steady demand conditions, long relationships with key customers and the proposed capacity expansion, supporting revenue growth and value addition. While SJPL's revenues have registered a healthy growth in line with the industry, its operating margins have moderated as the increase in product realisation was not commensurate with the sharp increase in raw material prices during a major part of the FY2022. However, its margins have improved in the recent months with SJPL passing on the major portion of the cost increase. Its operating margins are likely to improve to the steady state levels of around 5% over the medium term. Further, its revenues are likely to improve by more than 20% in FY2023 given the planned capacity addition. The rating also factors in SJPL's moderate financial risk profile, characterised by high working capital requirements and tight liquidity position. Nevertheless, SJPL's key metrics including total outside liabilities to the tangible net worth (TOL/TNW) and interest coverage are estimated to remain at adequate levels of around 1.1 times and 2.5 times, respectively in FY2022. SJPL's interest coverage ratios are expected to remain adequate at 1.1 times and ~4 times, respectively in FY2023 though the proposed capital expenditure towards setting up the machine-made jewellery unit would be largely funded through debt. While the liquidity position of SJPL has strained in the recent months owing to the lower earnings, repayment of unsecured loans to promoters and an increase in working capital requirements, the proposed enhancement of working capital limits in Q1 FY2023 is likely to support SJPL's liquidity and would be a key rating monitorable. SJPL's rating considers 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. The rating also factors in the intense competition in the jewellery manufacturing industry, which limits the company's pricing flexibility and margins (as seen over the years), the vulnerability of earnings to volatility in gold prices and regulatory risks faced by the sector.

The Stable outlook reflects ICRA's opinion that SJPL's performance will benefit from its established track record and long relationship with large jewellery retailers, which is likely to result in repeat orders and drive revenues and earnings.

Key rating drivers and their description

Credit strengths

Established presence in the industry – SJPL is a part of the Hanumant Rai Sanghi Group, which has more than eight decades of experience in manufacturing gold jewellery. This results in established relationships with large jewellery retailers such as Malabar Gold Private Limited, Kalyan Jewellers India Limited, Joyalukkas India Limited etc in the domestic as well as export markets, as reflected in repeat businesses over the years.

Improving formalisation of jewellery sector to support organised trade – The jewellery manufacturing sector is fragmented with presence of many unorganised players. However, the regulatory changes mandating increased transparency and compliance are expected to create a difficult operating environment for the unorganised players. Mandatory hallmarking of gold jewellery from June 2021 would further support the organised trade and provide better opportunities for players such as SJPL, leading to improved market share.

Credit challenges

Moderate financial profile – SJPL’s financial profile is moderate on the back of high working capital requirements, resulting in modest leverage indicators and tight liquidity position. SJPL’s inventory levels have increased in the recent months, constrained by slowdown in sales in March 2022 with the increase in gold prices. While lower earnings and firm short debt levels resulted in modest leverage indicators, SJPL’s coverage metrics remained at adequate levels in FY2022. Further, steady earnings and proposed enhancement of the working capital facilities are likely to improve its coverage metrics and cash flow position in the coming quarters.

Intense competition limits pricing flexibility – SJPL faces intense competition from organised and unorganised players in the manufacturing segment, which limit its pricing flexibility. Besides, high inventory of unhedged raw materials including gold and studded stones exposes the company’s profitability to volatility in prices.

Liquidity position: Stretched

SJPL’s liquidity position is tight, primarily constrained by the high working capital requirements and repayment of unsecured loans to the promoters in FY2022. It utilised more than 98% of its working capital facilities in the recent past. While its debt repayment over the next 12 months remains low compared to the cash accruals estimated at around Rs. 9 crore, its proposed capacity expansion of Rs. 10 crore and incremental working capital requirements are likely to result in cash flows remaining tight. Thus, SJPL’s ability to part-fund its capacity expansion through bank term loans and enhance its working capital limits would be critical to support its liquidity position.

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a healthy growth in its revenues and earnings and improve its working capital cycle, which in turn would improve its coverage metrics and liquidity position.

Negative factors – Inability of the company to improve its liquidity position through the proposed enhancement of working capital limits and ensure steady growth in earnings could result in a rating downgrade. Also, any sustained pressure on the operating performance or a deterioration in the working capital cycle, which could adversely impact the coverage metrics and liquidity position could result in a rating downgrade. Specific credit metrics that could lead to a rating downgrade include an interest coverage of less than 2.5 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 rating is based on the standalone financial statements of the rated entity. |

About the company

SJPL is a part of the Hanumant Rai Sanghi Group and is a manufacturer of stone-studded jewellery in India, catering to the domestic and export markets. It was established in 1928 as a proprietorship firm and was converted into a private limited company in 1999. It has branches in Chennai and Mumbai with its registered office in Hyderabad. The company manufactures coloured, precious stone and gem-studded gold jewellery with its product portfolio encompassing rings, bangles, long necklaces and bracelets. SJPL's manufacturing facility is in Hyderguda, Hyderabad.

Key financial indicators (audited)

| SJPL Standalone | FY2020 | FY2021 |
|--|--------|--------|
| Operating Income (Rs. crore) | 287.13 | 202.06 |
| PAT (Rs. crore) | 7.77 | 3.12 |
| OPBDIT/OI (%) | 5.87% | 4.76% |
| PAT/OI (%) | 2.71% | 1.55% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.23 | 1.29 |
| Total Debt/OPBDITA (times) | 4.14 | 7.81 |
| Interest Coverage (times) | 2.99 | 1.78 |

Source: SJPL; PAT: Profit after Tax; OPBDIT: 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 (FY2023) | | | | Chronology of Rating History for the past 3 years | | | |
|---|----------------|-------------------------|--------------|--|--------------------|---|-------------------------|-------------------------|--|
| | | Type | Amount Rated | Amount Outstanding as on February 28, 2022 (Rs. crore) | Date & Rating in | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 | |
| | | | | | April 06, 2022 | September 09, 2021 | 20-Oct-20 | 23-Jul-19 | |
| 1 | Fund based/ CC | Long Term | 62.5 | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | |
| 2 | Unallocated | Long Term | 1.5 | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) | |

Source: SJPL

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-------------------------------------|----------------------|
| Long-term - Fund Based/ Cash Credit | 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 | - | - | - | 62.50 | [ICRA]BBB- (Stable) |
| NA | Unallocated | - | - | - | 1.50 | [ICRA]BBB- (Stable) |

Source: SJPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 71501104

kaushikd@icraindia.com

Balaji M

+91 44 4596 4317

Balaji.m@icraindia.com

Roshan Dugar

+91 44 4596 4324

roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.