

Press Release

03 November, 2017

Gold Star Jewellery Private Limited (GSJPL)

Rating Reaffirmed



| | |
|------------------------------------|-----------------|
| Total Bank Facilities Rated | Rs. 205.00 Cr. |
| Long Term Rating | SMERA A-/Stable |
| Short Term Rating | SMERA A2+ |

Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA A-' (read as SMERA A minus)** and short term rating of **'SMERA A2+' (read as SMERA A two plus)** on the Rs. 205.00 crore bank facilities of Gold Star Jewellery Private Limited (GSJPL). The outlook is **'Stable'**.

Gold Star Jewellery Private Limited (GSJPL), incorporated in 1990 is engaged in the export of plain gold and diamond-studded gold jewellery. Gold Star Diamond Private Limited (GSDPL), incorporated in 1995, is engaged in the cutting and polishing of diamonds. The jewellery segment accounts for 75 per cent of the group's revenue, and the diamond division for the balance 25 per cent. The group mainly exports to USA. GSJPL is led by Mr. Ashish Shah and Mr. Alkesh Shah.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The Gold Star group started business in 1990 to manufacture and export plain gold and diamond-studded gold jewellery. The group primarily exports to the US and has long term relations with some of the renowned wholesalers and retailers in the market. The group also deals with customers in Japan, Hong Kong, Australia, Canada, India, etc.

The Directors have over two decades of experience in the gems and jewellery industry and are well supported by an experienced management team.

- **Improvement in revenues with comfortable profitability**

The group reported growth of 13.87 per cent in terms of revenue with Rs. 870.45 crore in FY2017 up from Rs. 764.45 crore in FY2016 on the back of increased customer concentration in US and increased sales to existing customers. In terms of profitability, the group reported operating margin of 6.19 per cent and net margins of 2.9 per cent in FY2017.

- **Healthy financial risk profile**

The financial risk profile continues to remain healthy with tangible net worth of Rs.290.06 crore as on 31 March, 2017 as against Rs. 264.74 crore in the previous year. The gearing improved marginally to 0.74 times as on 31 March, 2017 compared to 0.79 times in the previous year. The total debt of Rs. 213.40 crore mainly consists of working capital borrowings as on 31 March, 2017. Further, the interest coverage ratio of the group remained at 3.79 times as on 31 March, 2017 compared to 4.02 times in the previous year. The net cash accruals to total debt (NCA to TD) stood at 0.15 times in FY2017.

• **Strong liquidity position**

The group has strong liquidity with healthy net cash accruals of ~Rs.30 crore every year and negligible fixed debt obligations. The net cash accrual to total debt (NCA/TD) of the group remains stable at 0.15 times as on 31 March, 2017. The group has unencumbered cash and cash equivalents of Rs. 69.07 crore as on 31 March, 2017.

Weaknesses

• **Working capital intensive operations**

The Gold Star group's operations are working-capital-intensive with gross current assets (GCA) of 261 days in FY2017 as against 280 days in FY2016. The receivables stood at 161 days in FY2017 (PY: 175 days). Overall, the working capital cycle improved marginally to 131 days in FY2017 as compared to 144 days in FY2016. The average bank limit utilisation has been ~65 per cent in the last six months ended September 30, 2017.

• **Exposed to volatility in raw material prices, foreign exchange fluctuation risk**

The group is exposed to volatility in gold and diamond prices. The raw material is procured from the domestic market (44 per cent) and overseas (56 per cent). The Gold Star group derives over 95 per cent of its revenues from export sales. Hence, the profits are susceptible to fluctuations in forex rates. Moreover, the group borrows dollar denominated debt in order to support operations. The group has efficiently managed its forex risk over the past three years despite fluctuations in exchange rates. Though, the group hedges the fluctuation risk by purchasing gold forwards, the revenues still remain susceptible to volatility in the dollar rates.

Analytical Approach

SMERA has considered the consolidated business and financial risk profiles of Gold Star Jewellery Private Limited (GSJPL) and Gold Star Diamond Private Limited (GSDPL). Hereinafter refer to as 'Gold Star Group'. The consolidation is due to the common promoters, shared brand name, common treasury and financial synergies within the group.

Outlook: Stable

SMERA believes that the Gold Star group will continue to maintain a stable outlook over the medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17, the Gold Star Group reported profit after tax (PAT) of Rs. 25.27 crore on operating income of Rs.870.45 crore compared with PAT of Rs.25.42 crore on operating income of Rs.764.45 crore for FY2015-16. The net worth as on 31 March, 2017 stood at Rs. 290.06 crore as against net worth of Rs. 264.74 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|---------------|---|----------------------|--------------------|----------------------------------|
| 25 Oct, 2016 | Export Packing Credit | Long term | 66.44 | SMERA A-/Stable (Reaffirmed) |
| | Post Shipment Credit | Long term | 39.76 | SMERA A-/Stable (Reaffirmed) |
| | Standby line of Credit | Long term | 10.80 | SMERA A-/Stable (Reaffirmed) |
| | Metal Gold Loan | Long term | 15.00 | SMERA A-/Stable (Reaffirmed) |
| | Bank Guarantee/Letter of Credit | Short Term | 7.00 | SMERA A2+ (Reaffirmed) |
| | Forward Cover | Short Term | 5.89 | SMERA A2+ (Reaffirmed) |
| | Proposed Export Credit / Post Shipment credit | Long Term/Short Term | 60.11 | SMERA A-/Stable/A2+ (Reaffirmed) |
| 28 June, 2016 | Export Packing Credit | Long term | 67.40 | SMERA A-/Stable (Reaffirmed) |
| | Post Shipment Credit | Long term | 56.20 | SMERA A-/Stable (Reaffirmed) |
| | Standby line of Credit | Long term | 10.80 | SMERA A-/Stable (Reaffirmed) |
| | Metal Gold Loan | Long term | 15.00 | SMERA A-/Stable (Assigned) |
| | Overdraft | Long term | 1.00 | SMERA A-/Stable (Assigned) |
| | Bank Guarantee/Letter of Credit | Short Term | 7.00 | SMERA A2+ (Reaffirmed) |
| | Forward Cover | Short Term | 5.00 | SMERA A2+ (Reaffirmed) |
| | Proposed Export Credit / Post | Long | 6.60 | SMERA A-/Stable |

| | Shipment credit | Term | | (Reaffirmed) |
|---------------|---|------------|-------|----------------------------|
| 20 July, 2015 | Export Packing Credit | Long Term | 47.20 | SMERA A-/Stable (Assigned) |
| | Post Shipment Credit | Long Term | 31.80 | SMERA A-/Stable (Assigned) |
| | Standby line of Credit | Long Term | 8.00 | SMERA A-/Stable (Assigned) |
| | Bank Guarantee/Letter of Credit | Short Term | 10.00 | SMERA A2+ (Assigned) |
| | Forward Cover | Short Term | 5.00 | SMERA A2+ (Assigned) |
| | Proposed Export Credit / Post Shipment credit | Long Term | 13.00 | SMERA A-/Stable (Assigned) |

***Annexure – Details of instruments rated**

| Name of the facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|-----------------------------------|------------------|----------------|----------------|-------------------------------|-----------------|
| Term Loan | Dec, 2016 | 11.6% | Aug, 2021 | 7.50 | SMERA A-/Stable |
| Export Packing Credit | Not Applicable | Not Applicable | Not Applicable | 84.32 | SMERA A-/Stable |
| Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 86.88 | SMERA A-/Stable |
| Standby line of credit | Not Applicable | Not Applicable | Not Applicable | 10.80 | SMERA A-/Stable |
| Bank Guarantee / Letter of credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA A2+ |
| Proposed Fund Based Facilities | Not Applicable | Not Applicable | Not Applicable | 8.50 | SMERA A-/Stable |

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ABOUT SMERA

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