

Press Release

Gold Star Jewellery Private Limited

April 07, 2020



Rating reaffirmed and withdrawn

Total Bank Facilities Rated*	Rs. 214.20 crore (Enhanced from Rs.205.00 crore)
Long Term Rating	ACUITE A-/ Outlook: Negative (Reaffirmed and Withdrawn; Outlook revised to Negative)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and withdrawn the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the above mentioned bank facilities of Rs. 214.20 (enhanced from Rs. 205.00 cr.) for Gold Star Jewellery Private Limited (GSJL). The outlook has been revised from '**Stable**' to '**Negative**'.

Revision in Outlook

The revision in outlook is majorly on account of outbreak of COVID – 19 leading to lockdown in various countries specially USA and European nation. Gold Star Group has major exposure towards USA and Europe to around 68.00 per cent of its total sales in FY2019 and 65.00 per cent in the previous year. Against the uncertain backdrop of COVID – 19, Acuité believes that the company's operational performance will be significantly impaired over at least one to two quarters even in the event of the timely resumption of operations post the lockdown period. Further, the quick restoration of supply chain may also pose a challenge. The continuing domestic economic slowdown which has significantly aggravated by the Covid-19 led disruption may have a prolonged impact on the retail spending patterns and discretionary spending of the consumers. These is expected to impact the revenues, profitability and working capital cycle of Gold Star Group. Any major impact of the debt protection metric impinge a negative bias towards the rating.

About the Group

Mumbai based, Gold Star Jewellery Private Limited (GSJL) was incorporated in 1990. The company is engaged in the export of diamond studded gold jewellery. Other group company, Gold Star Diamond Private Limited (GSDL) was incorporated in 1995 and is engaged in the cutting, polishing and trading of diamonds. The Gold Star group 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 and Europe which constitutes to 68.00 per cent of total sales in FY2019 as against 65.00 per cent in the previous year. The group is led by Mr. Alkesh Shah and Mr. Sanjay Shah, which has recently entered into bridal segment Jewellery.

Analytical Approach

Acuité 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, significant operational and financial synergies within the group.

Key Rating Drivers

Strengths

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

The Gold star group has established presence since 1990, in manufacturing and export diamond-studded gold jewellery. The group has establish presence of over two decades in the industry and primarily exports to the USA and Europe. The long term relations with some of the renowned wholesalers and retailers in the market has helped the group in getting regular flow of orders. Gold star group also deals with customers in Australia, Canada, Italy and India to name few. The group is promoted by Mr. Alkesh Shah, Mr. Sanjay Shah and family members who has extensive experience of over two decades in the gems and jewellery industry. The group is well supported by second line of experienced management team. Established presence of the group along with experienced management has helped the company maintain long relationship with its customers which has resulted in healthy revenue growth of 8.79 percent in operating income to Rs. 871.90 crore in FY2019 as against Rs. 801.45 crore in FY2018. Further, the group has registered revenue of Rs. 683.82 crore for 9MFY2020. Acuité believes that its long track record of over two decades in the business and long standing relationship with its customers, Gold star group will continue to benefit from its established market position over the medium term.

- **Healthy Financial risk profile**

The financial risk profile of group stood healthy marked by healthy net worth, comfortable gearing and coverage indicators. The tangible net worth of the group stood at Rs. 419.06 crore as on 31 March, 2019 as against Rs. 378.39 crore as on 31 March, 2018 (includes quasi equity of Rs. 62.68 crore in FY2019 and Rs. 59.78 crore in FY2018). The gearing and TOL/TNW stood at 0.42 times and 0.78 times as on 31 March, 2019 over 0.47 times and 0.94 times as on 31 March, 2018. The total debt of Rs. 174.79 crore as on 31 March, 2019, majorly consist of term loans of Rs.10.30 crores and short term debt of Rs. 163.23 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.54 times and 0.25 times, respectively, for FY2019 as against 3.77 times and 0.17 times, respectively, in FY2018. The decline in interest coverage ratio is majorly on account of foreign exchange loss of Rs. 9.87 crore in FY2019. The group reported healthy net cash accruals (NCA) of Rs. 43.44 crore in FY2019. The cash accruals are expected in the range of Rs. 35.00 to 45.00 crore, against no major debt obligations over the next two years. Acuité believes that the group will be able to sustain its existing financial risk profile in near to medium term backed by establish presence in the Industry, extensive experience of promoters, healthy net cash accruals and in absence of any major debt funded capex. However, incremental working capital requirements and moderate reliance on bank lines is likely to impact the financial risk profile over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

The group operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 248 days in FY2019 and 278 days in FY2018. This is majorly on account of high receivable days of 145 days as on March 31, 2019 and 165 days as on March 31, 2018 respectively. Gold Star Group's inventory levels remained moderately high at 98 days as on March 31, 2019 vis-à-vis 105 days as on March 31, 2018. Thus leading to high utilization of its bank lines at about ~80 per cent for the last six months through December 2019. The jewellery business is inherently working capital intensive because of higher inventory holding period and the need to cater different jewellery requirements of customers. Acuité believes that, with the nature of business, operations are expected to be working capital intensive over the medium term. Further, the group's ability to improve stock rotation and efficiently working capital cycle management will be a critical credit monitorable.

- **Susceptibility to timely revival of consumer spending, volatility in raw material prices, foreign exchange risk and market demand**

The group has a presence in gems and jewellery segment. The business profile is linked to level of discretionary spending of the consumers. Any improvement in the economic parameters such as per capita income, high level of disposable income, improved job creation etc. leads to higher level of retail

spending. Conversely, in the event of prolonged economic slowdown due to myriad factors like natural calamities, there could be job losses and consequently slowdown in discretionary spending by the consumers.

Further, the group is exposed also to volatility in gold and diamond prices. The raw material is procured from the domestic market and overseas market. The Gold Star group derives over 95.00 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. Though, the group hedges the fluctuation risk by purchasing gold and currency forwards, the revenues still remain susceptible to volatility in external price fluctuations. However, the profits are susceptible to fluctuations in forex rates which is reflected by increased in finance cost related to exchange difference to Rs. 9.87 crore in FY2019 as against gain of Rs. 6.01 crores in FY2018. Further, muted demand in domestic as well as international market especially in exporting countries Like USA and Europe can affect the group's operating performance. Acuité believes discretionary nature of spending and exacerbated impact of COVID-19 on the industry can take longer in revival of demand than expected.

Rating Sensitivities

- Improvement in scale of operations, while maintaining stable profit margins.
- Any stretch in working capital cycle leading to deterioration of financial risk profile and liquidity.
- Deterioration in business risk profile with consequent impact on debt coverage metrics.

Liquidity Position: Strong

The liquidity profile of the group is strong marked by healthy net cash accruals in the range of Rs. 30.50 - 43.44 crores as against Rs. 4.10 - 4.60 crores repayment obligation during FY2017-2019. The net cash accruals are expected to remain in range of Rs. 35.00 to 45.00 crores through FY20-22. The cash and bank balance stood at Rs. 0.87 crores and current ratio of the company stood at 2.10 times as on 31 march 2019. The gross current asset (GCA) days which stood high at 248 days in FY2019 and 278 days in FY2018. The bank limit utilization stood at 80.00 percent in last six month ending December 2019. Acuité believes that group's net cash accruals and unutilised bank limits will be sufficient to fund its incremental working capital requirements over near to medium term.

Outlook: Negative

Acuité has revised the outlook of Gold Star Group to 'Negative' on account of slowdown in the gems and jewellery segment coupled with expected economic slowdown on account of outbreak of COVID – 19. The outlook may be revised to 'Stable' in case of Group demonstrated ability to sustain its revenues, profitability along with maintaining its working capital cycle. Conversely, the rating may be downgraded in case of any deterioration in working capital management and/or sharp decline in its revenues or profitability of the group leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	871.90	801.45
PAT	Rs. Cr.	36.78	24.64
PAT Margin	(%)	4.22	3.07
Total Debt/Tangible Net Worth	Times	0.42	0.47
PBDIT/Interest	Times	2.54	3.77

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
18-Jan-2019	Export Packing Credit	Long Term	100.35	ACUITE A-/Stable (Reaffirmed)
	Post shipment Credit	Long Term	68.77	ACUITE A-/Stable (Reaffirmed)
	Standby Line of credit	Long Term	12.88	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	4.44	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Proposed Fund based Bank Facilities	Short Term	11.56	ACUITE A-/Stable (Reaffirmed)
	Gold Metal Loan	Long Term	15.00	ACUITE A-/Stable (Withdrawn)
03-Nov-2017	Term Loan	Long Term	7.50	ACUITE A-/Stable (Reaffirmed)
	Export Packing Credit	Long Term	84.32	ACUITE A-/Stable (Reaffirmed)
	Post Shipment Credit	Long Term	86.88	ACUITE A-/Stable (Reaffirmed)
	Standby line of credit	Long Term	10.80	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee / Letter of credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Proposed Fund Based Facilities	Long Term	8.50	ACUITE A-/Stable (Reaffirmed)
25-Oct-2016	Export Packing Credit	Long Term	66.44	ACUITE A-/Stable (Reaffirmed)
	Post Shipment Credit	Long Term	39.76	ACUITE A-/Stable (Reaffirmed)
	Standby line of Credit	Long Term	10.80	ACUITE A-/Stable (Reaffirmed)
	Metal Gold Loan	Long Term	15.00	ACUITE A-/Stable (Reaffirmed)
	Bank Guarantee/Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Forward Cover	Short Term	5.89	ACUITE A2+ (Reaffirmed)
	Proposed Export Credit / Post Shipment credit	Long Term	60.11	ACUITE A-/Stable (Reaffirmed)
28-Jun-2016	Export Packing Credit	Long Term	67.40	ACUITE A-/Stable (Reaffirmed)

	Post Shipment Credit	Long Term	56.20	ACUITE A-/Stable (Reaffirmed)
	Standby line of Credit	Long Term	10.80	ACUITE A-/Stable (Reaffirmed)
	Metal Gold Loan	Long Term	15.00	ACUITE A-/Stable (Assigned)
	Overdraft	Long Term	1.00	ACUITE A-/Stable (Assigned)
	Bank Guarantee/Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Forward Cover	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Proposed Export Credit / Post Shipment credit	Long Term	6.60	ACUITE A-/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	100.35	ACUITE A-/Negative (Reaffirmed and outlook revised)
Post shipment Credit	Not Applicable	Not Applicable	Not Applicable	68.77	ACUITE A-/Negative (Reaffirmed and outlook revised)
Standby Line of credit	Not Applicable	Not Applicable	Not Applicable	18.08 (Increased from 12.88)	ACUITE A-/Negative (Reaffirmed and outlook revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.44	ACUITE A-/Negative (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2+ (Reaffirmed)
Proposed Fund based Bank Facilities	Not Applicable	Not Applicable	Not Applicable	20.00 (Increased from 11.56)	ACUITE A-/Negative (Reaffirmed and outlook revised)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Rupesh Patel Analyst - Rating Operations Tel: 02249294044 rupesh.patel@acuite.in	

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