

Press Release

Gold Star Jewellery Private Limited

June 22, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 265.82 crore (Enhanced from Rs. 214.20 crore)
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed and Assigned; Outlook revised from Negative to Stable)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed 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**) on the bank facilities of Rs. 214.20 crore for Gold Star Jewellery Private Limited (GJPL). Further, Acuité has assigned the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to Rs. 51.62 crore. The total bank facilities rated are of Rs.265.82 crores. The outlook has been revised from '**Negative**' to '**Stable**'.

About Company

Mumbai based, Gold Star Jewellery Private Limited (GJPL) was incorporated in 1990. The company is engaged in the export of diamond studded gold jewellery. The Gold Star jewellery segment accounts for 85 per cent of the group's revenue, and the diamond division for the balance 15 per cent in FY2021 (Provisional). The group is led by Shah Family, which has also entered into bridal segment Jewellery. The manufacturing facilities are located at Seepz, Mumbai.

Revision in Outlook

The revision in outlook from Negative to Stable is majorly on account of improvement in operating performance of Gold Star Group in last two years ending FY2021 (Provisional), and revival of demand in key markets like USA and Europe which contributes to around 80.00 per cent of its total sales in FY2021 (Provisional) and FY2020. Against the uncertain backdrop of second wave of pandemic, Acuité believes that the group's overall performance will not be much impacted in FY2022. Further, expected restoration of supply chain and picking up of export demand will help group performance to remain intact. The continuing domestic economic slowdown may have some impact on the retail spending patterns and discretionary spending of the consumers.

Also, group has undertaken expansion projects in FY2020 which has added to revenues in FY2021 (Provisional). Moreover, Gold Star group is planning to undertake additional capital expenditure in FY2022 for further expansion of current unit located at Seepz, which may have some impact on financial risk profile and incremental working capital requirement will persist. Any major impact of the debt protection metrics and deterioration in overall financial risk profile of group may impinge a negative bias towards the rating.

About the Group

Mumbai based, Gold Star Jewellery Private Limited (GJPL) was incorporated in 1990. The company is engaged in the export of diamond studded gold jewellery. Other group company, Gold Star Diamond Private Limited (GDPL) was incorporated in 1995 and is engaged in the cutting, polishing and trading of diamonds. The Gold Star jewellery segment accounts for 85 per cent of the group's revenue, and the diamond division for the balance 15 per cent in FY2021 (Provisional). The group mainly exports to USA and Europe which constitutes to ~80.00 per cent of total sales in FY2021 (Provisional) and in FY2020. The group is led by Mr. Alkesh Shah and Mr. Sanjay Shah, which has also entered into bridal segment Jewellery.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Gold Star Jewellery Private Limited (GJPL) and Gold Star Diamond Private Limited (GDPL). Hereinafter refer to as 'Gold Star Group'. The consolidation is due to the presence of common promoters, shared brand name, significant operational and financial synergies within the group. Extent of Consolidation: Full

List of key rating drivers and their detailed description:

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 and diamond. 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 a few. The directors extensive experience of over two decades in the in the gems and jewellery industry and long relationship with its customers has resulted in stable revenues. The operating income has improved to Rs. 1183.14 crore in FY2021 (provisional) as against Rs. 864.54 crore in FY2020, due to revival of demand in key markets and capital expenditure for expansion incurred in FY2020. The group is well supported by second line of experienced management team. Acuité believes that with its long track record of over two decades in the business and long standing relationship with its customers, the 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. 448.99 crore as on 31 March, 2020 as against Rs. 419.06 crore as on 31 March, 2019 (includes unsecured loans of Rs. 62.25 crore in FY2020 and Rs. 62.68 crore in FY2019). The gearing and TOL/TNW stood at 0.43 times and 0.72 times as on 31 March, 2020, similar against 0.42 times and 0.78 times as on 31 March, 2019. Total debt of Rs. 194.41 crore as on 31 March, 2020 consist of term loans of Rs.2.69 crores, other loans of Rs. 3.30 crore and short term debt of Rs. 188.42 crores. Tangible net worth continues to remain healthy at Rs. 470.18 as on 31 March, 2021 (Provisional). The group has also availed covid loans under ECGLS of Rs. 45.73 crores in FY2021 (Provisional). Debt protection metrics including interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.43 times and 0.21 times, respectively, for FY2020 as against 2.54 times and 0.25 times, respectively, in FY2019. The company reported healthy net cash accruals (NCA) of Rs. 41.19 crore in FY2020. The cash accruals are expected to remain in the range of Rs. 37.00 – 45.00 crore, against debt obligations of Rs. 15.00 to 18.50 crores over the next two years. Acuité believes the financial risk profile of the group is expected to remain healthy in near to medium term backed by healthy net cash accruals and expected improvement in operating performance. 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 moderately high working capital intensive operations is marked by gross current asset (GCA) days which stood high at 261 days as on March 31, 2020 and 248 days as on March 31, 2019. The same is likely to elongate in FY2021 (Provisional) on account of slight elongation in receivables and additional inventory need to maintain for new orders. The receivable days of the group stood high at 156 days as on March 31, 2020 and 145 days as on March 31, 2019 respectively. Gold Star Group's inventory levels remained at similar at 96 days as on March 31, 2020 vis-à- vis 98 days as on March 31, 2019. The inventory levels were further improved during FY2021 (Provisional) as reflected in inventory days of 64 days due to higher execution of orders in last quarter. However, there was slight elongation in receivables as reflected at 181 days as on March 31, 2021 (Provisional). Thus leading to moderately high utilization of its bank lines at about 91.00 per cent for the last six months through March 2021. Jewellery business is inherently working capital intensive because of higher inventory holding and the need to cater several 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 working capital cycle 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, pandemic, 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 more than 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 increase in finance cost related to exchange difference to Rs. 11.11 crores in FY2020 as against Rs. 9.87 crore in FY2019 and 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 directly affect the group's operating performance. Acuité believes discretionary nature of spending and exacerbated impact of second wave of pandemic on the industry can take longer in revival of demand than expected.

Rating Sensitivities

- Sustaining growth in revenue and margins 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 and debt coverage metrics due to capital expenditure incurred.

Liquidity Position: Strong

The Liquidity profile of the group stood healthy marked by net cash accruals of Rs. 30.00 – 43.40 crores as against Rs. 0.23 -4.60 crores repayment obligation during FY2018-2020. The cash accruals are expected in the range of Rs. 37.00 – 45.00 crore, against debt obligations of Rs. 15.00 to 18.50 crores through FY21-23. The cash and bank balance stood at Rs. 9.56 crores and current ratio of the company stood at 2.14 times as on 31 March 2020. The gross current asset (GCA) days which stood high at 261 days in FY2020 and 248 days in FY2019. The bank limit utilization stood high at 91 percent in last six month ending March 2021. Acuité believes that group's net cash accruals and un-utilised bank limits will be sufficient to fund its incremental working capital requirements over near to medium term.

Outlook: Stable

The outlook of group has been revised to 'Stable' from 'Negative' on account of improvement in operating performance of Gold Star Group in last two years ending FY2021(Provisional), and revival of demand in key markets. Acuité believes that Gold Star Group will continue to maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenue, while improving the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	864.54	871.90
PAT	Rs. Cr.	33.59	36.78
PAT Margin	(%)	3.89	4.22
Total Debt/Tangible Net Worth	Times	0.43	0.42
PBDIT/Interest	Times	2.43	2.54

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

None

Any other information

Not Any

Any Material Covenants

Not Any

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
07 –Apr- 2020	Export Packing Credit	Long Term	100.35	ACUITE A-/Negative (Reaffirmed and outlook revised)
	Post shipment Credit	Long Term	68.77	ACUITE A-/Negative (Reaffirmed and outlook revised)
	Standby Line of credit	Long Term	18.08 (Increased from 12.88)	ACUITE A-/Negative (Reaffirmed and outlook revised)
	Term Loan	Long Term	4.44	ACUITE A- (Withdrawn)
	Bank Guarantee	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Proposed Fund based Bank Facilities	Long Term	20.00 (Increased from 11.56)	ACUITE A-/Negative (Reaffirmed and outlook revised)
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	Long Term	11.56	ACUITE A-/Stable (Reaffirmed)
	Gold Metal Loan	Long Term	15.00	ACUITE A- (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	Long Term	10.80	ACUITE A-/Stable

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
	credit			(Reaffirmed)
	Bank Guarantee	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	40.00*	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Post shipment credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Standby Line of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A-/Stable (Reaffirmed & outlook Revised)
WCTL –I (Covid Loan)	April 2021	7.40	April 2023	6.00	ACUITE A-/Stable (Assigned)
WCTL – II (Covid Loan)	February 2021	7.65	February 2026	11.10	ACUITE A-/Stable (Assigned)
Export Packing credit	Not Applicable	Not Applicable	Not Applicable	28.08	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Post shipment credit	Not Applicable	Not Applicable	Not Applicable	17.52	ACUITE A-/Stable (Reaffirmed & outlook Revised)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Standby Line of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/Stable (Reaffirmed & outlook Revised)
WCTL -III (Covid Loan)	June 2020	7.95	June 2022	4.96	ACUITE A-/Stable (Assigned)
WCTL - IV (Covid Loan)	February 2021	8.35	February 2026	8.13	ACUITE A-/Stable (Assigned)
Export Packing credit/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00**	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Post shipment credit/FBP	Not Applicable	Not Applicable	Not Applicable	8.00**	ACUITE A-/Stable (Reaffirmed & outlook Revised)
WCTL - V (Covid Loan)	March 2021	7.30	March 2026	2.34	ACUITE A-/Stable (Assigned)
WCTL - VI (Covid Loan)	March 2021	7.30	March 2026	4.52	ACUITE A-/Stable (Assigned)
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.27	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	12.65	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Standby Line of credit	Not Applicable	Not Applicable	Not Applicable	2.08	ACUITE A-/Stable (Reaffirmed & outlook Revised)
WCTL - VII (Covid Loan)	June 2020	8.25	June 2022	3.29	ACUITE A-/Stable (Assigned)
WCTL - VIII (Covid Loan)	February 2021	7.55	February 2026	3.46	ACUITE A-/Stable (Assigned)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	10.60^	ACUITE A-/Stable (Assigned)
WCTL (Covid Loan)	March 2021	7.80	March 2026	1.93	ACUITE A-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2+ (Reaffirmed)
Proposed Long term facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Reaffirmed & outlook Revised)
Proposed Long term facility	Not Applicable	Not Applicable	Not Applicable	5.89	ACUITE A-/Stable (Reaffirmed & outlook Revised)

*Gold Metal Loan of Rs. 15.00 crores sublimit of EPC

**Sublimit of Rs. 12.00 Crores in Post shipment credit

^ includes PC/PCFC of Rs. 5.20 crores.

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About Acuité Ratings & Research:

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