

Press Release

Swarnsarita Gems Limited (SGL)

12 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) on the Rs. 100.00 crore bank facilities of Swarnsarita Gems Limited (SGL). The outlook is '**Stable**'.

SGL, the erstwhile Shyam Star Gems Ltd (SSGL) was incorporated in 1992. The company was taken over by Swarnsarita Jewellers Private Limited (SJPL) in FY2010-11 and renamed Swarnsarita Gems Limited (SGL). SGL is engaged in the manufacturing and wholesaling of gold and diamond jewellery. A listed company, it has branches in Kolkata, Ahmedabad Bangalore and Delhi with manufacturing facilities at Ghatkopar, Mumbai. The company is led by Chairman, Mr. Mahendra Chordia.

Key rating drivers

Strengths

Experienced management, established track record of operations

The promoter and managing director of the company, Mr. Mahendra Chordia, has experience of more than two decades in the diamond & jewellery industry. The promoter is well supported by a competent second line of management comprising, Mr. Lalit Chordia and Mr. Pankaj Kharwad.

Healthy financial risk profile

SGL has healthy financial risk profile marked by tangible net worth of Rs. 88.38 crore as on 31 March, 2017 as against Rs. 81.51 crore as on 31 March, 2016. The gearing stood at 0.94 times as on 31 March, 2017 as against 0.92 times as on 31 March, 2016. The debt of Rs.79.38 crore mainly consists of working capital borrowings. The company has no long term debt as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 1.98 times for FY2017 as against 1.91 times in FY2016. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) is comfortable and stood at 1.02 times as on 31 March, 2017 as against 1.06 times in FY2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times as on 31 March, 2017 and remains unchanged from the levels of FY2016. SMERA expects the financial risk profile to remain healthy in the near to medium term in the absence of major debt funded capex plans.

Reputed clientele

Owing to the industry experience of the promoters and a dedicated design team, SGL has been able to have long term relations with large jewellery retailers such as Malabar Gold, Kalyan Jewellers, Joyalukkas, Tribhovandas Bhimji Zaveri and GRT Jewellers. The company also exports jewellery to Dubai and UK with exports comprising around 30 percent of total sales in FY2017.

Weaknesses

Volatility in revenues and thin profitability margins

SGL registered revenue of Rs. 286.09 crore in FY2017, Rs. 320.99 crore in FY2016 and Rs. 240.79 crore in FY2015. The company is nonetheless expected to register good revenue growth in the current year having recorded revenues of Rs. 270.00 crore in the period April 2017 to October 2017. The operating margins have been low and stood at 2.08 percent in FY2017 compared to 1.90 percent in FY2016. The pressure on operating margins has been partly on account of increase in employee costs arising from the factory in Ghatkopar. The Gems & Jewellery (G&J) industry is also characterised by a large number of organised and unorganised players and intense competition resulting in strain on margins. SMERA however, believes that larger players like SGL will benefit from the healthy relationships with their geographically diversified clientele.

Working capital intensive operations

SGL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 169 days in FY2017 compared to 133 days in FY2016. The GCA days are mainly dominated by high inventory of 99 days in FY2017 compared to 65 days in FY2016. The increase in inventory was mainly from two new branches in Delhi and Bangalore. The cash credit facility has been fully utilised in the past six months. SMERA believes that efficient working capital management will be critical to maintain a stable credit profile.

Exposure to real estate

SGL has a wholly owned subsidiary named Swarnsarita Realty Private Limited (SRPL) engaged in real estate investment. SGL has an investment of Rs.22.32 crore in SRPL in terms of equity capital and long term advances which exposes it to risks in real estate. However, as indicated by the management, the exposure to the subsidiary is expected to reduce in the near to medium term.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SGL to arrive at the rating.

Outlook – Stable

SMERA believes that SGL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity – Key Financials

In FY2016-17, the company reported profit after tax (PAT) of Rs.2.89 crore on operating income of Rs.286.61 crore as against net profit of Rs. 2.70 crore on operating income of Rs. 321.52 crore in the previous year. The tangible net worth stood at Rs. 84.48 crore as on 31 March, 2017 as against Rs. 81.58 crore a year earlier.

Any other information:

SGL has been made a party to the ongoing litigation involving erstwhile promoters of Shyam Star Gems Limited (SSGL) as per the Securities and Exchange Board of India (SEBI) order dated August 26, 2015. The management, however, expects no impact on the company's performance and financial position due to this matter.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	SMERA BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB-/ Stable
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB-/ Stable

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ABOUT SMERA

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