

## Press Release

### Swarnsarita Gems Limited

January 10, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Stable)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 100.00 crore bank facilities of SWARN SARITA GEMS LIMITED (SGL). The outlook is '**Stable**'.

The downgrade in the rating is in the view of elongated debtor as on 6MFY2019, increase in exposure towards group company (Swarnsarita Realty Private Limited (SRPL)) and continuous decline in profitability in FY2018 and for 6MFY2019 leading to deterioration in debt protection metrics and leverage ratios of the company. The company has extended support in form of loans and advances and investment in SRPL. The exposure has increased to ~Rs.24.00 crore as on 30 September 2018 as against Rs.20.72 crore as on 31 March 2018. Debtors have been increased to Rs.63.72 crore as on 30 September 2018. The profitability of the company has declined to ~1.16 per cent for 6MFY2019 as against 1.33 per cent for 6MFY2018.

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.

### Analytical Approach

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

### 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, Mr. Sunny Chordia and Mr. Pankaj Kharwad.

- Improvement in working capital management**

SGL's operations are working capital have improved marginally in FY2018 over FY2017. Further, the Gross Current Asset (GCA) days stood at 122 days for FY2018 as against 169 days in FY2017. The inventory and debtor days stood comfortable at 60 and 40 respectively in FY2018. Further, the bank limit utilisation was fully utilised for last three months ending November 2018. Acuite believes that efficient working capital management will be critical to maintain a stable credit profile.

- 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.

## Weaknesses

### • Deterioration in financial risk profile

The financial risk profile of the company has deteriorated in FY2018 as against FY2017. The tangible net worth of SGL stood at Rs. 88.68 crore as on 31 March, 2018 as against Rs. 84.38 crore as on 31 March, 2017. The gearing stood at 1.19 times as on 31 March, 2018 as against 0.94 times as on 31 March, 2017. The debt of Rs.105.48 crore mainly consists of working capital borrowings. The company has no long term debt as on 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 2.59 times for FY2018 as against 1.98 times in FY2017. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.30 times as on 31 March, 2018 as against 1.02 times as on 31 March 2017. Debt-EBITDA of the company stood high at 9.78 times for FY2018 as against 8.99 times for FY2017. Any further deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

### • Volatility in revenues and thin profitability margins

SGL registered revenue of Rs. 485.10 crore in FY2018 as against Rs. 286.09 crore in FY2017. Further, the company has booked revenues of Rs.248.71 crore for 6MFY2019. The operating margins have been low and stood at 1.75 percent in FY2018 compared to 2.08 percent in FY2017. The pressure on operating margins has been partly on account of increase in raw material prices which constitutes to around 97 per cent of total revenues in FY2018. 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. Acuite however, believes that larger players like SGL will benefit from the healthy relationships with their geographically diversified clientele.

### • Exposure in real estate

SGL has a wholly owned subsidiary named Swarnsarita Realty Private Limited (SRPL) engaged in real estate investment. SGL had an investment as on 31 March 2018, of Rs.20.72 crore in SRPL in terms of equity capital and long term advances which exposes it to risks in real estate. Further, the investment has increased to Rs.24.00 crore as on 30 September 2018. However, as indicated by the management, the increase in loans and advances was due accumulated interest on the loans and advances. However, any significant increase in loans and advances will remain a key rating sensitivity factor.

## Outlook: Stable

Acuite 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.

## Liquidity Position

SGL has adequate liquidity marked by healthy net cash accruals. The company generated cash accruals of Rs.2.81 to 4.49 crore during the last three years through 2016-18 with no repayment debt obligations. The cash accruals of the company are estimated to remain around Rs.5.06 to 6.25 crore during 2019-21. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 122 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.21.55 crore as on March 31, 2018. The current ratio of the group stand healthy at 1.67 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	485.10	286.09	320.99
EBITDA	Rs. Cr.	8.49	5.95	6.09
PAT	Rs. Cr.	4.30	2.87	2.68
EBITDA Margin	(%)	1.75	2.08	1.90
PAT Margin	(%)	0.89	1.00	0.83
ROCE	(%)	5.92	5.40	5.85
Total Debt/Tangible Net Worth	Times	1.19	0.94	0.92

PBDIT/Interest	Times	2.59	1.98	1.91
Total Debt/PBDIT	Times	9.78	8.99	8.89
Gross Current Assets (Days)	Days	122	169	133

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

CRISIL, vide its press release dated December 28, 2018 had denoted the rating of SGL Limited as 'CRISIL BB+/Stable; ISSUER NOT COOPERATING; Rating Withdrawn' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB+/Stable' vide its press release dated March 24, 2017.

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
12-Dec-2017	Cash Credit	Long Term	65.00	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB-/ Stable (Assigned)

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BB+/Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00 (enhanced from Rs.20.00 Cr)	ACUITE BB+/Stable (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00 (reduced from Rs.15.00 Cr)	ACUITE BB+/Stable (Downgraded)

#### Contacts

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**About Acuite Ratings & Research:**

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