

Press Release

Swarnsarita Gems Limited

March 30, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) 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. The company is listed on BSE. 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. Over the years, the promoters have built strong customer base, resulting in repeat orders and has also ventured into global markets. Acuite believes that the company is likely to continue to benefit from its promoters' extensive experience in the industry.

- Improvement in revenues albeit thin margins**

The company's revenues have improved in FY2019 to Rs.548.24 crore compared to Rs.485.10 crore in FY2018. Increase in revenues is backed by new contracts acquired by the company. Further, the company for 9MFY2020 has reported revenues of Rs.457.25 crore. The operating margins have been low and stood at 1.85 percent in FY2019 compared to 1.75 percent in FY2018. 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 FY2019. 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.

- 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 FY2019 as against FY2018. The tangible net worth of SGL stood at Rs. 93.39 crore as on 31 March, 2019 as against Rs. 88.68 crore as on 31 March, 2018. The gearing stood at 1.40 times as on 31 March, 2019 as against 1.19 times as on 31 March, 2018. The debt of Rs.130.92 crore mainly consists of working capital borrowings. The company has no long term debt as on 31 March, 2019. The Interest Coverage Ratio (ICR) stood at 2.45 times for FY2019 as against 2.59 times in FY2018. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.51 times as on 31 March, 2019 as against 1.30 times as on 31 March 2018. Debt-EBITDA of the company stood high at 10.66 times for FY2019 as against 9.78 times for FY2018. Any further deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

• 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 2019, of Rs.20.95 crore in SRPL in terms of equity capital and long term advances which exposes it to risks in real estate. However, any significant increase in loans and advances will remain a key rating sensitivity factor.

Liquidity Position: Adequate

SGL has adequate liquidity marked by healthy net cash accruals. The company generated cash accruals of Rs.3.06 to 4.90 crore during the last three years through 2017-19 with no repayment debt obligations. The cash accruals of the company are estimated to remain around Rs.5.00 to 7.00 crore during 2020-22. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 111 in FY 2019. The company maintains unencumbered cash and bank balances of Rs.0.83 crore as on March 31, 2019. The current ratio of the company stood healthy at 1.50 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivity

- Unwinding of exposure in form of advances to Swarnsarita Realty Private Limited.
- Substantial improvement in scale of operation while maintaining profitability margins over the medium term

Material Covenants

The company to maintain following ratios for FY2019 -
Debt Equity less than equal to 1.50 times
Current Ratio more than 1.3 times

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 and working capital management. Conversely, the outlook may be revised to 'Negative' in case of addition exposure in form of loans and advances to group companies or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	548.24	485.10
PAT	Rs. Cr.	4.72	4.30
PAT Margin	(%)	0.86	0.89
Total Debt/Tangible Net Worth	Times	1.40	1.19
PBDIT/Interest	Times	2.45	2.59

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
10-Jan-2019	Cash Credit	Long Term	65.00	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/ Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
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	70.00	ACUITE BB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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