

Press Release

Swarnsarita Gems Limited

June 28, 2021

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 124.00 crore (enhanced from Rs.100.00 crore)
Long Term Rating	ACUITE BB+/Outlook: Stable (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the above mentioned bank facilities of Rs. 105.38 crore for Swarnsarita Gems Limited (SGL). Further, Acuite has also assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.18.62 crore bank facilities. The total rated facility stood at Rs.124.00 crore. The outlook is '**Stable**'.

About Company

Swarnsarita Gems Limited (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 later renamed Swarnsarita Gems Limited (SGL). The company is listed on BSE. The company is engaged in the manufacturing and wholesaling of gold and diamond jewellery. It has branches in Kolkata, Ahmedabad Bangalore and Delhi with manufacturing facilities at Ghatkopar, Mumbai. The company is led by Chairman, Mr. Mahendra Chordia. The company also exports to USA, Dubai, UK and Singapore, which contributes to 30 to 35 percent of total sales.

Rationale for rating reaffirmation

The rating reaffirmation factors in moderate improvement in operating performance on back of cost reduction measures undertaken in FY2021 and expected revival of demand in domestic as well as in key markets in which SGL exports its products. Against the uncertain backdrop of second wave of pandemic, Acuite believes that the SGL's overall performance will be less impacted in FY2022. Further, expected restoration of supply chain and picking up of domestic demand will help company performance to remain intact. Moreover, company is planning to undertake addition of one unit (Branch) in FY2022, which may result in improvement in revenues and may lead to incremental working capital requirements to maintain growth momentum.

The rating is constrained by increase in overall debt due to additional covid loans taken in FY2021 (Provisional), which has resulted in deterioration in debt protection metrics and leverage ratios of the company. Any major impact of the debt protection metrics and deterioration in overall financial risk profile of company may impinge a negative bias towards the rating. Also, company has extended support in form of loans and advances and investment in Swarnsarita Realty Private Limited (SRPL), which has reduced by some extent in FY2021 (Provisional).

Analytical Approach

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

List of key rating drivers and their detailed description:

Strengths

• Experienced management, established track record of operations and reputed clientele

SGL has presence in Gems and Jewellery industry since 1992. The promoter and managing director of the company, Mr. Mahendra Chordia, has experience of more than two decades in industry. The promoter is well supported by a competent second line of management. Over the years, the promoters have built strong customer base, resulting in repeat orders and has also ventured into international markets. 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, and Tribhovandas Bhimji

Zaveri (TBZ). The company also exports jewellery to Dubai, USA, Singapore and UK. Acuite believes that with its long track record of over two decades in the business and long standing relationship with its customers, the company will continue to benefit from its established market position over the medium term.

• **Improvement in revenues and margins**

The operating income has also stood improved to Rs. 577.46 crores in FY2021 (Provisional) against Rs. 558.74 crores in FY2020 and Rs. 548.24 crores in FY2019. The company has adequate orders in hand, providing revenue visibility over near to medium term. The operating margins have marginally improved to 2.15 per cent in FY2021 (Provisional) against 1.93 per cent in FY2020. The same is due to closure of one unit at Vikhroli, thereby reducing employee and overall operational cost. However, PAT margins have remained in same range at 0.90 per cent in FY2021 (Provisional) against 0.95 per cent in FY2020 due to increase in interest cost. Acuite, believes that players like SGL, will benefit from the healthy relationships with their geographically diversified clientele.

Weaknesses

• **Moderate financial risk profile**

The financial risk profile of company stood moderate marked by moderate net worth, gearing and coverage indicators. The tangible net worth of the company stood at Rs. 104.20 crore as on March 31, 2021 (Provisional) as against Rs. 98.69 crore as on March 31, 2020. The gearing and TOL/TNW stood at 1.14 times and 1.20 times as on March 31, 2021 (Provisional), in similar range of 1.03 times and 1.11 times as on March 31, 2020. Total debt of Rs. 118.77 crores as on March 31, 2021 (Provisional) consist of term loans of Rs.3.62 crores, and short term debt of Rs. 115.42 crores. The company has also availed covid loans under Emergency Credit Line Guarantee Scheme (ECLGS) of Rs. 18.62 crores in FY2021 (Provisional) resulting in debt repayment obligation in range of Rs. 5.00 to Rs.6.50 crores for upcoming three years ending FY2024. The cash accruals are expected to remain in the range of Rs. 6.00 – Rs.7.00 crore, which may be impacted in case of lower than expected operating performance especially margins. The debt protection metrics including interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.33 times and 0.05 times, respectively for FY2021 (Provisional) as against 2.54 times and 0.06 times, respectively in FY2020. Acuite believes the financial risk profile of the company is expected to remain moderate in near to medium term backed by expected improvement in operating performance. However, incremental working capital requirements and moderate reliance on bank lines which stood utilised moderately high at 87.50 percent for last six months ending May 2021, is likely to impact the financial risk profile over the medium term.

• **Intense competition, Susceptibility to volatility in raw material prices, and market demand along with exposure to real estate**

The company has a presence in gems and jewellery industry which is characterised by a large number of organised and unorganised players and intense competition resulting in strain on margins. The business profile of SGL is linked to level of discretionary spending of the consumers. Further, the company is exposed to volatility in gold and diamond prices. The raw material is procured from the domestic market. Though, the company hedges the fluctuation risk by purchasing gold through existing lenders and currency forwards, the revenues still remain susceptible to volatility in external price fluctuations. Further, 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 2021 (Provisional), of Rs.20.40 crore in SRPL in terms of equity capital and long term advances which exposes it to risks in real estate. The exposure is expected to be reduced over near to medium term as per management. However, any significant increase in loans and advances will remain a key rating sensitivity factor.

Rating Sensitivities

- Sustaining growth in revenue while maintaining stable profit margins.
- Unwinding of exposure in the form of advances to Swarnsarita Realty Private Limited.
- Deterioration in business risk profile and debt coverage metrics due to higher than expected debt levels.
- Deterioration in working capital management impacting liquidity profile

Liquidity Position: Adequate

The Liquidity profile of the company stood adequate marked by net cash accruals of Rs. 4.90 – Rs.6.20 crores as against no major repayment obligation during FY2019-2021. The cash accruals are expected in the range of Rs. 6.00 – Rs.7.00 crore, against debt obligations of Rs. 5.00 to Rs.6.50 crores through FY22-24. The cash and bank balance stood at Rs. 31.88 crores (including bank deposits and margin) and current ratio of the company stood at 1.68 times as on March 31, 2021 (Provisional). The gross current asset (GCA) days which stood moderate at 135 days in FY2021 (Provisional) as against 116 days in FY2020. The bank limit utilization stood high at 87.50 percent in last six month ending May 2021. Acuite believes that company's net cash accruals and un-utilised bank limits is expected to remain stretched in case of more than envisaged working capital requirement in short term.

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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	577.46	558.74
PAT	Rs. Cr.	5.19	5.31
PAT Margin	(%)	0.90	0.95
Total Debt/Tangible Net Worth	Times	1.14	1.03
PBDIT/Interest	Times	2.33	2.54

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

None

Any other information

None

Material Covenant

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Mar-2020	Cash Credit	Long Term	70.00	ACUITE BB+/Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB+/Stable (Reaffirmed)
	Cash Credit	Long Term	65.00	ACUITE BB+/Stable (Downgraded from)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jan-2019				ACUITE BBB-/Stable)
	Cash Credit	Long Term	30.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00 (enhanced from 70.00)	ACUITE BB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE BB+/Stable (Reaffirmed)
WCTL – I (Covid Loan)	24-Jun-2020	9.25%	25-May-2025	15.00	ACUITE BB+/Stable (Assigned)
WCTL – II (Covid Loan)	23-Mar-2021	9.25%	30-Apr-2026	3.62	ACUITE BB+/Stable (Assigned)

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About Acuité Ratings & Research:

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