

Press Release

UNION CHAINS AND JEWELLERS PRIVATE LIMITED

December 29, 2017

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 30.00 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 BBB minus) on the Rs. 30.00 crore bank facilities of UNION CHAINS AND JEWELLERS PRIVATE LIMITED. The outlook is '**Stable**'.

Established in 1991, Union Chains and Jewellers Private Limited (UCJPL) is primarily engaged in the manufacture of jewellery. The company's current promoters are Mr. Mahendra Mishrimal Sanghvi, Mr. Rakesh G. Sanghvi, and others. The company follows a B2B model catering to domestic markets though it has also penetrated into exports in the past few years. The company is also engaged in the manufacture of tailor made fabrics and accessories under the brands 'Audelade' and 'Divyavastra'; these account for 10 to 15 percent of the company's revenue.

Key Rating Drivers

Strengths

• Experienced promoters

The promoters of UCJPL have an experience of almost three decades in the gems and jewellery industry with clients including Tribhovandas Bhimji Zaveri (TBZ), Malabar Gold Private Limited, and Alankar International Private Limited among others. The company's long standing track record has helped it in establishing healthy relationships with customers and suppliers.

• Reputed clientele

The company has a reputed clientele and also caters to a niche class of clients including bollywood celebrities through its high-end luxury product offerings. It also exports gold and silver jewellery products to the UAE. The company's foray into lower weight gems and jewellery product offerings has been revenue accretive. Revenue increased from Rs. 193.14 crore in FY2016 to Rs. 241.37 crore in FY2017. Further, YTD (till November 2017), the company has already reported a revenue of Rs. 298 crore (provisional).

• Healthy financial riskprofile

The financial risk profile of the company is marked by comfortable networth, and moderate gearing ratio and debt protection metrics. The networth of the company stands comfortable at Rs.27.10 crore as on 31 March, 2017; however it contains unsecured loans of Rs. 13.23 crore, subordinated to banks which SMERA has treated as quasi equity. The gearing of the company is moderate at 1.15 times in FY2017 compared to 0.89 times in FY2016. The total debt of the company consists of long term loan of Rs.0.35 crore and short term borrowing of Rs.30.85 crore. The interest coverage ratio (ICR) stood at 1.56 times and 1.20 times in FY2017 and FY2016 respectively. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31 March, 2017. The company does not have any significant capex plans over the medium term and with consistent accretion to reserves, the financial risk profile is expected to improve going forward .

• Moderate working capitalcycle

The working capital cycle is marked by gross current asset (GCA) days of 87 in FY2017 as against 106 in the previous year. This is mainly due to decline in debtor days to 56 in FY2017 as against 83 in the previous year. The company expects to maintain inventory of around 30-35 days over the medium term.

Weaknesses

- **Susceptibility to volatility in gold prices and forex fluctuations**

The margins of the company are susceptible to volatility in prices of gold and silver. Export contribution in the sales mix also exposes the company to foreign exchange fluctuation risk.

- **Low profitability**

UCJPL has a low profitability profile with profit after tax (PAT) margin of 0.72 percent in 2017 as against 0.28 percent in FY2016. Low margins could be attributed to the B2B business model; also the company is focusing on higher volumes at the cost of compromise in margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

Outlook: Stable

SMERA believes that UCJPL will maintain a stable outlook in the medium term, benefitting from its promoters' experience and reputed clientele. The outlook may be revised to 'Positive' if the company registers an improvement in its profit margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenue and profitability or if the working capital cycle elongates.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 241.37 | 193.14 | 174.59 |
| EBITDA | Rs. Cr. | 5.00 | 4.93 | 4.44 |
| PAT | Rs. Cr. | 1.73 | 0.54 | 0.39 |
| EBITDA Margin | (%) | 2.07 | 2.55 | 2.54 |
| PAT Margin | (%) | 0.72 | 0.28 | 0.22 |
| ROCE | (%) | 9.24 | 9.39 | 16.01 |
| Total Debt/Tangible Net Worth | Times | 1.15 | 0.89 | 1.54 |
| PBDIT/Interest | Times | 1.56 | 1.20 | 1.18 |
| Total Debt/PBDIT | Times | 4.87 | 4.67 | 7.21 |
| Gross Current Assets (Days) | Days | 87 | 106 | 146 |

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

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 30.00 | SMERA BBB- / Stable |

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