Press Release

Jaipur Jewels Global Limited

March 23, 2021

Rating Downgraded

Total Bank Facilities Rated*	Rs. 69.00 cr. (Enhanced from Rs.64.50 cr.)
Long Term Rating	ACUITE BB-/Outlook: Negative (Downgraded from BBB-/Negative; Withdrawn)
Short term Rating	ACUITE A4 (Downgraded from ACUITE A3)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE BBB-' (read as ACUITE Triple B minus)** and the short term rating to **'ACUITE A4' (read as ACUITE A four)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs. 69.00 crore (enhanced from Rs.64.50 crore) bank facilities of Jaipur Jewels Global Limited (JJGL). The outlook is **'Negative'.**

Also, Acuité has downgraded and withdrawn the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE BBB-' (read as ACUITE Triple B minus)** on previously rated bank facility of Rs.14.50 crores as per request of client and NOC received from the banker in accordance with Acuité withdrawal Policy.

Revision in rating

The rating downgrade is driven by challenges faced by JJGL in maintaining healthy liquidity profile as reflected in persistence high level of bank limit utilization which stood fully utilized as well as elongation in the working capital cycle. Also, continuous decline in cash flow from operations during the last three years period through FY2020, has resulted in limited financial flexibility. Furthermore, company's operations have been severely impacted due to pandemic in first three quarters of FY2021, resulting in loss of orders and revenues from stores. The company had availed covid relaxation provided by existing lenders in accordance with prevailing guidelines to manage short term liquidity pressures and significant elongation in working capital cycle in current year augmented due to pandemic. Moreover, cash flow remain uncertain due to intensification of already stretched export receivables and higher inventory holding resulted in prolonged operating cycle. Acuité expects the liquidity pressure to persist till the company is able to tie up for increased bank limits to commensurate with its expected growth in near to medium term.

About the company

Jaipur Jewels, based of Mumbai was established as a partnership firm in 1996, later changed its constitution in 2012 to Jaipur Jewels Global Limited (JJGL). The company is engaged in the business of processing, trading and export of all kinds of precious and semi-precious stones including diamonds and pearls, Jewellery and ornaments under the brand name 'Jaipur Jewels'. The company operations are managed by Mr. Amit Naheta and Mr. Vineet Naheta. JJGL has two showrooms located at Nepean Sea Road in Mumbai (1000 sq. feet) and Sunder Nagar Market in New Delhi (1700 sq. feet). It also has its own design studio located at grant road in Mumbai (Maharashtra). The company has also started franchise store in Varanasi (3000 sq. feet) and is in process of launching online store.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the JJGL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

  The Naheta family has been engaged in the business of manufacturing gold and Jadau jewelry since 1863. It was originally founded by Mr. Roopchand Naheta and collectively the family has an established track record of over 150 years. M/s Jaipur Jewels was established by Mr. Subhash Naheta in 1996 as a partnership firm and converted to closely-held public limited company as Jaipur Jewels Global Limited in 2012. The company is currently managed by the seventh-generation entrepreneurs, Mr. Amit Naheta and Mr. Vineet Naheta. Backed by the experience, it has been able to maintain long standing relationships with various celebrity clients. This is reflected from moderate scale of operations marked by operating income of Rs. 241.94 crores in FY2020 as against Rs.290.28 crore in FY2019 and Rs. 245.02 crore in FY2018. The operations of stores were severely impacted in current fiscal due to pandemic. Thus resulted in loss of revenues and orders. The company has achieved revenue of Rs. 126.79 crores for 11MFY2021. Acuité believes the financial risk profile will be supported by the brand existence of Jaipur Jewels over 150 years and extensive experience of promoters, well supported by longstanding relationship with existing customers and suppliers.

Weaknesses

- **Average financial risk profile**

JJGL has average financial risk profile marked by tangible net worth of Rs. 29.06 crore as on March 31, 2020 as against Rs. 27.15 crore as on March 31, 2019. The gearing (debt to equity) stood high at 3.23 times as on March 31, 2020 as against 3.15 times as on March 31, 2018 due to higher reliance on working capital limits. The total debt of Rs. 93.82 crore as on March 31, 2020 consists of working capital borrowing of Rs. 71.81 crore, long term borrowing of Rs.0.12 crore and unsecured loans of Rs. 21.89 crore. The Interest Coverage Ratio (ICR) stood at 1.45 times in FY2020 as against 2.01 times in FY2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.85 times in last two years ending March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.03 times in FY2020 as against 0.07 times in FY2019. Going forward, Acuité expects the financial risk profile to remain stable on account of absence of significant debt funded capex plans.

- **Elongation in working capital management and stretched liquidity profile**

JJGL's operations are moderately working capital intensive marked by high Gross Current Asset (GCA) of 196 days in FY2020 compared to 151 days in FY2018. The GCA days are mainly dominated by high inventory days of 147 days in FY2020 compared to 106 days in FY2019. The receivables days remain in range of 45 to 50 days and creditors days stood in range of 15 to 30 days. As the company is operating retail showrooms, it maintains optimal inventory across in terms of quantity and designs at the stores. Stores with inventory of about three to four months leads to full utilisation of its working capital limits for the last six months ended February 2021. However, elongation in receivables cycle due to pandemic has resulted in limited financial flexibility and lockdown during the first two quarters has severely impacted cash flows from operations.

Also, tepid market conditions and impact of pandemic has resulted in prolonged operating cycle and stimulated elongation of receivables. Further intensification of receivables and liquidity pressures in near term situation will have negative bias to the rating. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Liquidity position: Stretched

The company's liquidity profile is stretched marked by fully utilised bank limits and modest cash flows from operations. JJGL has short term debt obligations towards the covid relaxation availed and uneven cash flows resulting from decline in scale of operations limits financial flexibility. Further elongation in the export receivables and sluggish retail sales would put further pressure on current liquidity mismatch. The stance of the lenders will be critical in this regard. Acuité believes the company will require a significant realignment of receivables commensurate with the pandemic scenario and the consequent impact in its operating cash flows. Further, unencumbered cash and bank balances available with the company stood at Rs. 4.48 crores as on March 31, 2020. The current ratio of the company stood at 1.53 times in FY2020 as against 1.41 times in FY2019. However, pandemic has significantly impacted short term liquidity profile of the company and resulted in higher reliance on working capital borrowings. Acuite believes that the capital infusion from the promoters is likely to partly support the current liquidity levels of the company.

Rating Sensitivities

- Elongation in working capital cycle and further deterioration in liquidity profile of the company
- Sustaining existing business and financial risk profile remains key monitorable

Material Covenants

None

Outlook: Negative

Acuité believes that the outlook on the company will remain 'Negative' over the medium term owing to stretch in liquidity, elongation in the working capital cycle and deterioration in overall coverage indicators. The rating may be further downgraded in case of further decline in the operating margins or further stretch in liquidity profile observed due to already elongated working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the company registers sustained growth in revenues while improving margins and efficiently managing its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	241.94	290.28
PAT	Rs. Cr.	1.87	5.07
PAT Margin	(%)	0.77	1.75
Total Debt/Tangible Net Worth	Times	3.23	3.15
PBDIT/Interest	Times	1.45	2.01

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/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27-Feb-2020	Cash Credit	Long Term	14.50	ACUITE BBB-/Negative (Reaffirmed and outlook revised)
	Secured Overdraft	Long Term	15.00	ACUITE BBB-/Negative (Reaffirmed and outlook revised)
	Packing Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
05-Feb-2019	Cash Credit	Long Term	14.50	ACUITE BBB-/ Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB-/ Stable (Assigned)
	Packing Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (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	14.50*	ACUITE BB- (Downgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BB-/Negative (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB-/Negative (Downgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00^	ACUITE A4 (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4 (Downgraded)

**Sub-limit - EPC/PSC of Rs. 6.00 crore of Cash Credit.*
^Sub-limit - Pre shipment facility of Rs. 10.00 crore and Inland LC of Rs.7.00 crores.

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,383 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.