

Press Release

Kama Schachter Jewelry Private Limited

March 20, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 210.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A Three**) to the above mentioned bank facilities of Rs. 210.00 crores for Kama Schachter Jewelry Private Limited (KSPL). The outlook is 'Stable'.

Mumbai based, Kama Schachter Jewelry Private Limited (KSPL) was incorporated in 1993 and started its operations in 1996. The company is promoted by Mr. Colin Shah, Mrs. Mamata Apparao, and the Israel-based Leo Schachter group. KSPL is engaged in manufactures and exports plain gold and diamond-studded gold jewellery. The company's manufacturing facility is located at Santacruz, Mumbai. It also has marketing and sales office at New York and Hong Kong. The company caters to domestic as well as export markets.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established market position and experienced management**

KSPL has established presence since 1996, thus having an operation track record of over two decades in jewellery industry. The company is jointly owned by Mr. Colin Shah and the Israel-based Leo Schachter group. The Leo Schachter group is one of the leading supplier to America's major retail jewelry chains. Mr. Colin Shah is member of 'Gem and Jewellery Export Promotion Council' of India and has over two decades of experience in the said industry. The promoters' extensive industry experience and established brand presence has helped the company to establish longstanding relationships with reputed clientele. It caters to reputed clients like Titan Company limited, Rosy Blue Jewellery, Senco Gold and diamonds, and Malabar gold to name few. The company benefits from established market position, promoters' extensive industry experience, and established relationships with major jewellery retail chains in domestic as well as international markets for over two decades. KSPL is well supported by its association with the Leo Schachter group in international market and by second line of management with skilled staff of over 750 employees.

- **Moderate Financial risk profile**

The financial risk profile of the company is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The tangible net worth stood at Rs. 126.81 crore as on 31 March, 2019 as against Rs. 124.37 crore as on 31 March, 2018 (includes preference share capital of Rs. 7.50 crore). The gearing and TOL/TNW has slightly improved to 1.43 times and 2.32 times as on 31 March, 2019 over 1.61 times and 3.01 times as on 31 March, 2018. Total debt of Rs. 181.27 crore as on 31 March, 2019 consist of term loans of Rs.0.53 crores, preference capital of Rs. 2.33 crore and short term debt of Rs.178.42 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.34 times and 0.05 times, respectively, for FY2019 as against 1.56 times and 0.05 times, respectively, in FY2018. The decline in interest coverage ratio is majorly on account of foreign exchange loss

incurred in FY2019. The company reported net cash accruals (NCA) of Rs. 8.63 crore in FY2019. The cash accruals are expected in the range of Rs. 8.50 to 9.00 crore, against no major debt obligations over the next two years. Acuité however believes that the incremental working capital requirements and moderation in bank lines is likely to exert pressure on the financial risk profile over the medium term

Weaknesses

• Decline in Revenues and foreign exchange fluctuation risk

The revenue of the company have declined by ~6.51 per cent on YoY basis and stood at Rs. 606.88 crores in FY2019 as against Rs. 649.15 crores in FY2018. KSPL has booked revenue of Rs.425.75 crores for ten months ending January 2020. The decline is majorly on account of global economic slowdown and higher gold prices leading to declined demand and intense competition in the industry. The company had ventured into retail segment, but have closed its retail store in FY2019. Further, company derives ~45 to 50 per cent of its revenues from export sales and borrows in rupee denominated debt in order to support operations. KSPL hedges the fluctuation risk by forward contract booking of foreign exchange. However, the profits are susceptible to fluctuations in forex rates which is reflected by increased finance cost related to exchange difference to Rs.5.48 crore in FY2019 as against Rs.2.25 crores in FY2018 and Rs.2.15 crores in FY2017. However, company have been able to manage its operating margin which stood improved at 5.96 per cent in FY2019 as against 5.18 per cent in FY2018. Acuité believes operations will still remain exposed to the volatility in foreign exchange prices, which will affect its pricing flexibility to a large extent.

• Working capital intensive nature of operation

The operations of KSPL are working capital intensive marked by Gross Current Assets (GCA) days of 209 in FY2019 and 222 days in FY2018. This is mainly on account of its inventory cycle which stood at 102 days in FY2019 and 110 days in FY2018. Further, receivable cycle also stood high at 109 days in FY2019 as against 112 days in FY2018. However, receivables are high on account of higher sales towards the last quarter of the financial year. Thus leading to high utilization of its bank lines at about 88.00 per cent for the last six months through November 2019. Acuité believes that higher dependence on working capital limits is likely to impact overall financial flexibility of the company, particularly its liquidity.

Rating Sensitivities

- Deterioration business risk profile and financial risk profile
- Sustaining growth in revenue and margins
- Moderately working capital nature of operations

Liquidity Position: Adequate

KSPL Liquidity profile stood adequate marked by net cash accruals of Rs. 8.63 crores as against Rs.0.53 crores repayment obligation. The net cash accruals are expected to remain in range of Rs. 8.50 to 9.00 crores through FY20-22. The cash and bank balance stood at Rs. 0.58 crores and current ratio of the company stood at 1.27 times as on 31 march 2019. The gross current asset (GCA) days stood at 209 days in FY2019 and 222 days in FY2018. The bank limit utilization stood at 88.00 percent in last six month ending November 2019. Acuité believes that KSPL's net cash accruals and unutilised bank limits will be sufficient to fund its incremental working capital requirements.

Outlook: Stable

Acuité believes that KSPL will maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenue, while sustaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	606.88	649.15
PAT	Rs. Cr.	2.85	3.53
PAT Margin	(%)	0.47	0.54
Total Debt/Tangible Net Worth	Times	1.43	1.61
PBDIT/Interest	Times	1.34	1.56

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities <https://www.acuite.in/view-rating-criteria-6.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)

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
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00*	ACUITE BBB-/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00*	ACUITE BBB-/ Stable
Post Shipment Credit /PSCFC	Not Applicable	Not Applicable	Not Applicable	18.00*	ACUITE A3
Metal Gold Loan	Not Applicable	Not Applicable	Not Applicable	6.90*	ACUITE BBB-/Stable
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	51.50#	ACUITE BBB-/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	59.00@	ACUITE BBB-/Stable
Post Shipment Credit/PSCFC	Not Applicable	Not Applicable	Not Applicable	27.00^	ACUITE A3
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.33**	ACUITE BBB-/Stable
Post Shipment Credit/PSCFC	Not Applicable	Not Applicable	Not Applicable	17.25**	ACUITE A3
Post Shipment Credit/PSCFC (Stand by)	Not Applicable	Not Applicable	Not Applicable	4.92**	ACUITE A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable

* Maximum Utilisation of Rs.40.00 crores. Interchangeability of PSC to EPC: Rs.3.60 crores, EPC to PSC: Rs.7.20 crores, Bank Guarantee of Rs.10.00 crores.

Sub limits - Export Credit: Rs. 31.00 Crores, Cash Credit: Rs. 5.00 Crores, WCDL: Rs. 10.00 crores and PSF: Rs. 31.00 crores.

@Sub limits: FBP/FBN/FBD/PSCFC of Rs. 38.00 crores and EPC/PCFC Rs. 35.00 crores.

^Includes Stand by limits of Rs.3.50 crores.

**Fully interchangeability from EPC to PSC and PSC to EPC to the extent of 50.00 percent

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About Acuité Ratings & Research:

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