

Press Release

Kama Schachter Jewelry Private Limited

May 17, 2021

Rating Reaffirmed and Outlook Revised



Total Bank Facilities Rated*	Rs. 172.90 Cr. (reduced from Rs. 210.00 Cr.)
Long Term Rating	ACUITE BBB-/Outlook: Negative (Reaffirmed and Outlook Revised from Stable)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 172.90 crore (reduced from Rs.210.00 crore) bank facilities of Kama Schachter Jewelry Private Limited (KSPL). The outlook is revised to **'Negative'** from **'Stable'**.

Revision in outlook

The revision in the outlook is on account of significant decline in operating performance, deterioration in financial risk profile and coverage indicators, thereby impacting overall liquidity profile of the company. The impact of pandemic, discretionary spending by customers and tepid market conditions in key markets, had resulted in deferment of orders, having significant impact on the operations of KSPL in FY2021 (Provisional) and FY2020. Also, fall in value of diamonds, increase in prices of gold had resulted in lower realization and valuation of inventory thereby impacting margins. KSPL has incurred net losses from last two consecutive years ending FY2021 (Provisional), resulting in negative net cash accruals and limited financial flexibility. Further, elongation in receivables has resulted in prolonged operating cycle and moderate reliance on working capital limits.

The company has also availed covid assistance/GECL loans under the emergency credit line from existing lenders under RBI guidelines to manage short term liquidity pressures. Further intensification of liquidity pressures to meet its near to medium term debt obligation will have negative bias to the rating. However, ratings draws support from expected improvement in operating performance in upcoming year on back of sizeable orders in hand, overall reduction in debt levels and concrete steps undertaken by the company to decrease overall cost.

About Company

Incorporated as private limited company in 1993, Kama Schachter Jewelry Private Limited (KSPL) is based out of Mumbai. The operations were started in 1996. The company is promoted by Mr. Colin Shah, and the Israel-based Leo Schachter group. KSPL is engaged in manufacturing and exports of gold and diamond-studded gold jewellery. The company's manufacturing facility is located at Goregaon and SEEPZ, Mumbai. It also has marketing and sales office at New York. The company caters to domestic as well as export markets.

Analytical Approach

Acuité has taken a standalone view of the business risk profile and financial risk profile of KSPL to arrive at the ratings.

Key Rating Drivers

Strengths

- **Established market position, experienced management and reputed clientele**

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 senior 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.

The company caters to reputed clients like Titan Company limited, Unique Design, Caratlane, GRT jewellers, 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. Acuite believes the company will continue to benefit from its established presence in the industry, and the promoter's demonstrated ability to sustain a healthy level of operations across various cycles.

Weaknesses

- **Decline in scale of operations and margins**

The operating income of the company stood significantly declined to Rs. 352.28 crores in FY2021 (Provisional) as against Rs. 469.73 crores in FY2020 and Rs. 606.88 crores in FY2019. The decline in sales is due to nationwide lockdown in Q1FY2021 and logistical challenges faced during the pandemic for export orders. The overall slowdown in gems and jewelry industry and key market had resulted in declined performance. The orders were also delayed and deferred due to pandemic.

Further, PBDIT margins have declined to 3.70 percent in FY2021 (Provisional) and 1.99 percent in FY2020 as against the historical trend of 5 to 6 percent. The decline is due to lower realization, decline in prices of diamonds, lower exports and increase in gold prices. As KSPL deals in order backed diamond studded jewellery; the gold price fluctuation if any has to be borne by the company. The PAT margins have significantly declined and stood negative at 2.65 percent in FY2021 (Provisional) and 1.48 percent in FY2020 as against 0.47 percent in FY2019. The company has incurred net loss of Rs.9.34 crores in FY2021 (Provisional) and Rs.6.94 crores in FY2020 as against profit of Rs. 2.85 crores in FY2019.

- **Average financial risk profile**

The company has moderate financial risk profile marked by net worth of Rs. 107.57 crores as on March 31, 2021 (Provisional) as against Rs. 117.45 crore as on March 31, 2020 and Rs. 126.81 crore as on March 31, 2019 (includes preference share capital of Rs. 7.50 crore). The decline in net worth is due to loss incurred in FY2021 and FY2020. The gearing (debt-to-equity) of the company stood at 1.47 times as on March 31, 2021 (Provisional) as against 1.49 times as on March 31, 2020 and 1.43 times as on March 31, 2019. The total debt of Rs. 158.34 crore as on March 31, 2021 comprises of term loans of Rs. 27.19 crores, preference capital of Rs. 2.33 crore and short term debt of Rs. 128.82 crore. As per Acuite's understanding on discussion with company's management, Rs.2.33 crores of redeemable preference shares is likely to get extended on or before redemption date. Interest Coverage Ratio (ICR) stood low at 0.79 times for FY2021 (Provisional) as against 0.89 times for FY2020 and 1.34 times for FY2019. DSCR also stood at 0.76 times for FY2021 (Provisional) as against 0.88 times for FY2020 and 1.24 times for FY2019. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood high at 2.60 times March 31, 2021 (Provisional) as against 2.37 times as on March 31, 2020. The Debt-EBITDA stood high at 11.89 times for FY2021 (Provisional) as against 18.81 times for FY2020.

• Working capital intensive nature of operations

The company has working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 335 days for FY2021 (Provisional) as against 258 days for FY2020. The inventory holding period stood high at 176 days for FY2021 (Provisional) as against 130 days for FY2020 and 102 days in FY2019. The debtor days have increased to 152 days for FY2021 (Provisional) as against 129 days for FY2020, due to lockdown in March 2020 and deferment of orders in March 2021. The receivables are high on account of higher sales towards the last quarter of the financial year. Thus leading to moderate utilization of its bank lines, between 75 to 83.00 per cent for the last six months ending March 2021.

Rating Sensitivities

- Decline in revenues and margins
- Elongation in working capital cycle and further stretch in liquidity profile
- Delay in realisation of export bills beyond extended timelines sought from lenders
- Increase debt levels resulting in deterioration in financial risk profile and coverage indicators

Liquidity Position: Stretched

Liquidity profile of KSPL is stretched marked by negative net cash accruals and moderate bank limit utilization of 75 to 83.00 percent for the last six months ending March 2021. Also, management has sought extension of the export bills during pandemic with the lenders to manage the short term liquidity mismatch and ensure an orderly dissolution of the outstanding export bills. The company maintains low unencumbered cash and bank balances of Rs.0.25 crore as on March 31, 2021 (Provisional). The current ratio of the company stands modest at 1.31 times as on March 31, 2021 (Provisional). The Gross Current Asset (GCA) days remain high at 335 days for FY2021 (Provisional) as against 258 days for FY2020. Acuite expects that the liquidity of the company is likely to improve going ahead on account of additional lines provided by existing lenders and traction in receivables.

Outlook: Negative

Acuite has revised the KSPL outlook to 'Negative' from 'Stable' on account of decline in operating performance, elongation in export bills receivables and stretch in liquidity profile providing limited financial flexibility. However, factors in support from its experienced management and long track record of operations. The outlook may be revised to 'Stable' in case the company registers expected/moderate growth in revenues, margins and profitability thereby improving overall liquidity profile. Conversely, the rating may be downgraded if further intensification of liquidity pressures is visible in near term or any significant stretch in its working capital cycle leading to further deterioration in the financial risk profile of KSPL.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	352.28	469.73
PAT	Rs. Cr.	(9.34)	(6.94)
PAT Margin	(%)	(2.65)	(1.48)
Total Debt/Tangible Net Worth	Times	1.47	1.49
PBDIT/Interest	Times	0.76	0.89

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

None

Any other information

Not Applicable

Any Material Covenants

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
20-Mar-2020	EPC/PCFC	Long Term	12.00*	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	12.00*	ACUITE BBB-/Stable (Assigned)
	Post Shipment Credit /PSCFC	Short Term	18.00*	ACUITE A3 (Assigned)
	Metal Gold Loan	Long Term	6.90*	ACUITE BBB-/Stable (Assigned)
	EPC/PCFC	Long Term	51.50#	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	59.00@	ACUITE BBB-/Stable (Assigned)
	Post Shipment Credit/PSCFC	Short Term	27.00^	ACUITE A3 (Assigned)
	EPC/PCFC	Long Term	7.33**	ACUITE BBB-/Stable (Assigned)
	Post Shipment Credit/PSCFC	Short Term	17.25**	ACUITE A3 (Assigned)
	Post Shipment Credit/PSCFC (Stand by)	Short Term	4.92**	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB-/Stable (Assigned)

* 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

*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-/Negative (Reaffirmed and Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.85* (reduce from 12.00)	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Post Shipment Credit /PSCFC	Not Applicable	Not Applicable	Not Applicable	12.00*	ACUITE A3 (Reaffirmed)
Metal Gold Loan	Not Applicable	Not Applicable	Not Applicable	6.90*	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)

					revised)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	42.90# (reduce from 51.50)	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	48.50@ (reduce from 59.00)	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Post Shipment Credit/EBRD	Not Applicable	Not Applicable	Not Applicable	22.17^ (reduce from 27.00)	ACUITE A3 (Reaffirmed)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.08** (reduce from 7.33)	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)
Post Shipment Credit/PSCFC	Not Applicable	Not Applicable	Not Applicable	13.60* (reduce from 17.25)	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE BBB-/Negative (Reaffirmed and Outlook revised)

Note: Total Limits – Rs.170.00 crores as per bank sanctioned terms

* Maximum limit Utilisation of Rs.32.85 crores. Interchangeability of PSC to EPC: Rs.2.40 crores, EPC to PSC: Rs.6 crores, Bank Guarantee of Rs.10.00 crores.

Sub limits - Export Credit: Rs. 28 Crores, Cash Credit: Rs. 5.00 Crores, WCDL: Rs. 2 crores and PSF: Rs. 35.90 crores.

@Sub limits: Cash Credit+ wcdl + domestic bills 29.50, export credit - 19 cr.

*Full interchangeability shall be permitted from EPC to PSC .

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About Acuité Ratings & Research:

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