

Press Release

Touchstone Fine Jewellery

August 25, 2020



Rating Assigned

| | |
|-------------------------------------|-----------------------|
| Total Bank Facilities Rated* | Rs.12.00 Cr. |
| Short Term Rating | ACUITE A4+ (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.12.00 Cr bank facilities of Touchstone Fine Jewellery (TFJ).

About the Firm

Mumbai-based, TFJ was established as a partnership firm in 2013. The firm is engaged in manufacturing and exporting of studded jewellery to USA presently. The firm is promoted by Mr. Apoorva S Mehta, Mr. Malay L Mody and Mr. Siraj B Saraiya who have over two decades of experience in the jewellery industry. It is a ~100 percent export business.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of TFJ to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and long track record of operations**

TFJ, promoted by Mr. Apoorva S Mehta, Mr. Malay L Mody and Mr. Siraj B Saraiya has over two decades of experience in the said line of business. It is a ~100 percent export business. The firm exports to USA presently. The firm is situated at Andheri, Mumbai with an installed capacity of 23,000 pieces per annum which is fully utilized. The extensive experience coupled with a long track record of operations has enabled the firm to forge healthy relationships with customers and suppliers which translated to improvement in revenue growth, year-on-year, from Rs.34 Cr in FY2018 to Rs.43 Cr in FY2019; a compounded annual growth rate of about 34 percent. However, due to the global outbreak of COVID-19 and the subsequent announcement of lockdown, the operations of the firm have remained impacted. The firm has an unexecuted order book of Rs.2.35 Cr which will be executed by the end of August, 2020.

Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- **Below average financial risk profile**

Financial risk profile of the firm is below average marked by high gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing has improved but still stood high at 6.02 times as on 31 March, 2019 as against 6.26 times as on 31 March, 2018. TOL/TNW stood at 8.89 times as on 31 March, 2019 as against 7.89 times as on 31 March, 2018. The tangible net worth of the firm stood modest at Rs.2.33 crore as on 31 March, 2019 as against Rs.1.97 crore as on 31 March, 2018. Of the total debt of Rs.14.03 crore as on 31 March, 2019, short-term debt stood at Rs.10.00 crore and unsecured loans from directors/promoters stood at Rs.4.03 crore.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood at 1.49 times and 0.04 times, respectively in FY2019. The firm reported cash accruals of Rs.0.52 Cr for FY2019 against no repayment obligations. Further, annual cash accruals are expected to be in the range of about Rs.0.29-0.84 Cr in the medium term against no repayment obligations.

Acuité believes that the financial risk profile of the firm is expected to remain at a similar level on account of modest net worth and no debt-funded capital expenditure for the medium term.

• Working capital intensive operations

TFJ's working capital operations are intensive as evident from Gross Current Asset (GCA) of 152 days as on March 31, 2019 as against 134 days as on March 31, 2018 owing to a high collection cycle from customers. The debtor's days were recorded at 135 days for FY2019 as against 85 days in FY2018. The inventory days were recorded at 16 days in FY2019 as against 51 days in FY2018; since firm has started procuring ~80 percent of the inventory against orders from customers. The inventory holding period for a diamond is generally 20-25 days as additional inventory (diamonds) is maintained considering the firm dealing in export orders to facilitate immediate orders within time. The inventory is realizable stock and there are no deadstock/cancelled stock orders. The working capital limits are moderately utilized at ~70-80 percent through FY2020.

Acuité believes that the working capital operations are expected to be on similar lines with respect to the receivable cycle; which will remain a key rating sensitivity factor.

• Risk of withdrawal associated with partnership nature

TFJ was established as a partnership firm in 2013. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Improvement in the operating revenue and scale of operations while sustaining the margins.
- Any stretch in working capital operations leading to a deterioration of its financial risk profile and liquidity.

Material Covenants

None

Liquidity: Adequate

Liquidity of TFJ is adequate, marked by moderate net cash accruals of Rs.0.52 Cr as on 31st March, 2019 against nil repayment obligations. Further, the cash accruals are expected to be at Rs.0.29 Cr to Rs.0.84 Cr for the medium term against no repayment obligations. The current ratio stood at 1.21 times as on 31st March, 2019. Liquidity is managed with the existing working capital limits and fixed deposits of Rs.2.25 Cr as on 31st March, 2019. The bank lines were utilized at 70-80 percent through FY2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against nil repayment obligations, no capex plans, though remain partly constrained due to high reliance on working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 43.13 | 34.18 |
| PAT | Rs. Cr. | 0.42 | 0.19 |
| PAT Margin | (%) | 0.98 | 0.55 |
| Total Debt/Tangible Net Worth | Times | 6.02 | 6.26 |
| PBDIT/Interest | Times | 1.49 | 1.32 |

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

CARE, vide its press release dated Sep 13, 2019 had denoted the rating of TOUCHSTONE FINE JEWELLERY as 'CARE B+/Stable/CARE A4; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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 |
|------------------------|------------------|----------------|----------------|-----------------------------|-----------------------|
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 12.00* | ACUITE A4+ (Assigned) |

*EPC is sublimit to the extent of Rs.4.00 crore.

Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

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