

Press Release



Touchstone Fine Jewellery

March 22, 2022

Rating Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|------------------|-----------------------|
| Bank Loan Ratings | 12.00 | - | ACUITE A4+ Upgraded |
| Total Outstanding Quantum (Rs. Cr) | 12.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has upgraded the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.12.00 Cr bank facilities of TOUCHSTONE FINE JEWELLERY (TFJ).

Reason for upgrade

The upgrade is on account of improvement witness in business risk profile of the firm during the current financial year on account of increase in scale of operations owing to high the exports demand. The rating continues to factor in the experienced management with established track record of operations in the export market and adequate liquidity position of the firm. The rating is however constrained by moderate financial risk profile, working capital intensive nature of operation of the firm.

About the Company

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 99.5 percent export business.

Analytical Approach

Acuite has taken a 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 have over two decades of experience in the said line of business. It is a 99.5 percent export business and exports to USA presently. The firm is situated at Andheri, Mumbai with an installed capacity of

40,000 pieces per annum which is fully utilized. The extensive experience of the promoters coupled with long track record of operations has enabled the firm to forge healthy relationships with its exports customers and domestic suppliers.

Acuité believes that the business risk profile of the firm is expected to benefit from its established presence in the aforementioned industry and the promoter's experience in the aforementioned industry.

Improvement witnessed in business risk profile

The outbreak of covid-19 pandemic globally and subsequent announcement of lockdowns impacted the revenue of the firm in FY21 which stood at Rs.33.90 crore registering a decline of ~15 percent YoY compared to Rs.39.84 crore in FY20. However, with decline in covid-19 cases and resumption of economic activities especially in USA, the operations of the firm witnessed significant recovery as reflected by revenues registered in 9MFY22 which stood at Rs.81.67 crore. The growth is majorly on account of high demand coming in from USA.

Despite decline in turnover, the operating profit margin was improved to 6.10 percent in FY21 compared against 5.12 percent in FY20 majorly on account of decline in raw material costs. Subsequently, Profit after Tax (PAT) increased marginally to Rs.0.54 crore in FY21 compared against Rs.0.42 crore in FY20.

Acuité believes that the business risk profile of the firm is expected to improve over the medium term on account of healthy demand observed from the export market.

Weaknesses

Moderate financial risk profile

TFJ has moderate financial risk profile marked by low tangible net worth of Rs.2.94 crore as on 31 March 2021 as against Rs.2.16 crore as on 31 March 2020. The gearing level of the company remained high at 5.55 times as on 31 March 2021 as against 7.37 times as on 31 March 2020. The high gearing levels is majorly on account of low net worth and high debt outstanding of the firm. Of the total debt of Rs.16.34 crore as on 31 March 2021, short-term debt stood at Rs.11.42 crore and unsecured loans from directors / promoters stood at Rs.4.93 crore. The service coverage ratios remained moderate marked by interest coverage ratio of 1.73 times for FY21 as against 1.54 times in FY20 and debt service coverage ratio of 1.53 times for FY21 against 1.39 times for FY20. The total outside liabilities to tangible net worth (TOL/TNW) also remained high and stood at 7.18 times as on March 31, 2021 against 9.96 times as on March 31, 2020.

Acuité believes that the financial risk profile of the firm is expected to remain moderate over the medium term on account of low net worth and no major debt-funded capital expenditure.

Working capital intensive operations

The firm's working capital operations are intensive in nature as evident from high Gross Current Asset (GCA) of 180 days as on March 31, 2021, as against 152 days as on March 31, 2020. The high GCA days is majorly on account of a high collection cycle from customers which stood at 136 days for FY21 compared against 118 days same period last year. The inventory days were recorded at 45 days in FY2021 as against 34 days in FY2020. The firm starts procuring ~80 percent of the raw material once they receive orders from its customers. Subsequently, the creditor days stood at 65 days for FY21 against 58 days for FY20. Further, The average bank limit utilization of the firm remains moderate at ~80 percent in last six months ended Nov' 2021.

Acuité believes that the working capital operations are expected to be remain working capital intensive with respect to the high 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 deterioration of its financial risk profile and liquidity.

Material covenants

None

Liquidity Position: Adequate

Liquidity of TFJ is adequate marked by moderate net cash accruals of Rs.0.70 Cr as on 31st March 2021 against its maturing debt obligations of Rs.0.49cr for the same period. Further, the cash accruals are expected to be at Rs.4.74 Cr to Rs.6.78 Cr for the medium term against its debt obligations of Rs.0.49 crore to Rs.0.59 crore. The current ratio stood of the firm stood at 1.21 times as on 31 March 2021. Liquidity is managed with the existing working capital limits and fixed deposits of Rs.2.93 Cr as on 31 March 2021. The bank limits were utilized on an average of ~80 percent in last six months ended Nov' 21. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals against its repayment obligations, no capex plans, though remain partly constrained due to high reliance on working capital requirements.

Outlook: Stable

Not Applicable

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 33.90 | 39.84 |
| PAT | Rs. Cr. | 0.54 | 0.42 |
| PAT Margin | (%) | 1.61 | 1.06 |
| Total Debt/Tangible Net Worth | Times | 5.55 | 7.37 |
| PBDIT/Interest | Times | 1.73 | 1.54 |

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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---|
| 01 Nov 2021 | Bills Discounting | Short Term | 12.00 | ACUITE A4 (Downgraded and Issuer not co-operating*) |
| 25 Aug 2020 | Bills Discounting | Short Term | 12.00 | ACUITE A4+ (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|-------------------|----------------|-------------------|------------------|----------------|----------------|-------------------|--------------------------|
| Indusind Bank Ltd | Not Applicable | Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE A4+ Upgraded |

Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Management Trainee-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research

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