

Press Release

Swarnsarita Jewels India Limited (Erstwhile Swarnsarita Gems Limited)

January 16, 2023



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	124.00	ACUITE BB+ Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	124.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the above mentioned bank facilities of Rs.124.00 crore of **Swarnsarita Jewels India Limited (SJIL)**.

The rating has been withdrawn on account of the request received from the company, and NOC received from the banker as per Acuite's policy of withdrawal of ratings.

Rationale for rating reaffirmation

The rating reaffirmation factors in stable operating performance of SJIL in FY2022, marked by improving operating income, stable operating margins and efficient working capital management, albeit high reliance on bank limits. The Company's operating income improved to Rs.841.19 crore in FY2022 as against Rs. 575.56 crore in FY2021. The company's revenue stood at ~Rs.200 Cr in Q1FY2023. The operating margins remained stable as it ranged between 2.13-2.33 percent in last two years ended FY2022. The rating is constrained by the modest financial risk profile and susceptibility of profile margins to volatility in raw material prices and competitive nature of the industry along with exposure of SJIL towards the real estate industry.

About the Company

Swarnsarita Gems Limited (SGL), the erstwhile Shyam Star Gems Ltd (SSGL) was incorporated in 1992. The company was taken over by Swarnsarita Jewellers Private Limited (SJPL) in FY2010-11 and later renamed Swarnsarita Gems Limited (SGL). The company is listed on BSE. The company is engaged in the manufacturing and wholesaling of gold and diamond jewellery. It has branches in Kolkata, Ahmedabad Bangalore and Delhi with manufacturing facilities at Ghatkopar, Mumbai. The company is led by Chairman, Mr. Mahendra Chordia. The company also exports to USA, Dubai, UK and Singapore, which contributes to 40 to 45 percent of total sales.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SJIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management, established track record of operations and reputed clientele**

SJIL has presence in Gems and Jewellery industry since 1992. The promoter and managing director of the company, Mr. Mahendra Chordia, has experience of more than two decades in industry. The promoter is well supported by a competent second line of management. Over the years, the promoters have built strong customer base, resulting in repeat orders and has also ventured into international markets. Owing to the industry experience of the promoters and a dedicated design team, the company has been able to have long term relations with large jewellery retailers such as Malabar Gold, Kalyan Jewellers, and Tribhovandas Bhimji Zaveri (TBZ). The company also exports jewellery to Dubai, USA, Singapore and UK.

Acuité believes that with its long track record of over two decades in the business and long standing relationship with its customers, the company will continue to benefit from its established market position over the medium term.

- **Improvement in revenues and stable margins**

The operating income has improved to Rs.841.19 crore in FY2022 as against Rs. 575.56 crore in FY2021. The Company has generated revenue of ~Rs.200 Cr in Q1FY2023. The improvement in revenue is attributable to addition of a new unit (branch) in FY2022. The operating margins remained range bound, as it stood at 2.13 per cent in FY2022 against 2.33 per cent in FY2021. The PAT margins stood at 0.96 per cent in FY2022 against 1.05 per cent in FY2021.

Weaknesses

- **Modest Financial risk profile**

The financial risk profile of the company is modest marked by moderate net worth, gearing and coverage indicators. The tangible net worth of the company stood at Rs. 113.21 crore as on March 31, 2022, as against Rs.105.03 crore as on 31 March, 2021. The gearing and TOL/TNW remained stable at 1.11 times and 1.16 times respectively as on March 31, 2022, as against 1.11 times and 1.15 times as on 31 March 2021. The Total debt of Rs. 125.96 crore as on 31 March, 2022 consist of term loans of Rs.19.39 crore, and short term debt of Rs. 106.56 crore. The Debt protection metrics, interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.59 times and 0.07 times, respectively, as on March 31, 2022, as against 2.31 times and 0.05 times, respectively, as on March 31, 2021. DSCR stood at 2.20 times as on March 31, 2022, as against 1.95 times in previous year. However, Debt/EBITDA stood high at 7.03 times as on March 31, 2022, as against 7.46 times as on March 31, 2021.

Acuité believes the financial risk profile of the company is expected to remain moderate in near to medium term backed by expected improvement in operating performance. However, incremental working capital requirements and high reliance on bank lines, marked by average utilisation ranging between 90-95 percent is likely to impact the financial risk profile over the medium term.

- **Intense competition, Susceptibility to volatility in raw material prices, and market demand along with exposure to real estate**

The company has a presence in gems and jewellery industry which is characterised by a large

number of organised and unorganised players and intense competition resulting in strain on margins. The business profile of SJIL is linked to level of discretionary spending of the consumers. Further, the company is exposed to volatility in gold and diamond prices. The raw material is procured from the domestic market. Though, the company hedges the fluctuation risk by purchasing gold through metal loans availed from existing lenders and currency forwards, the revenues still remain susceptible to volatility in external price fluctuations. Further, SJIL has a wholly owned subsidiary named Swarnsarita Realty Private Limited (SRPL) engaged in real estate investment. SJIL had an investment as on March 31, 2022 of Rs.20.96 crore in SRPL in terms of equity capital and long term advances which exposes it to risks in real estate. However, any significant increase in loans and advances will remain a key rating sensitivity factor.

• Working Capital Management

SJIL's working capital operations are moderate marked by Gross Current Assets (GCA) days of 85 for FY2022 as against 116 days in previous year FY2021. This is majorly on account of inventory and debtor days of 38 and 37 respectively for FY2022. There is some moderate improvement in working capital cycle due to improvement in realisation. The general credit period offered to domestic customers ranges from 15 to 45 days and for exports, it is 7 days. The working capital cycle is likely to be moderate and reliance on working capital will remain high as 95% of the gold is procured through the bank facility of gold metal loan.

Rating Sensitivities

- Sustaining growth in revenue while maintaining stable profit margins
- Unwinding of exposure in the form of advances to Swarnsarita Realty Private Limited
- Deterioration in business risk profile and debt coverage metrics due to higher than expected debt levels

Material covenants

None

Liquidity Position Adequate

The liquidity position of the company is adequate marked by moderate net cash accruals against the maturing debt obligations. The Net cash accruals generated ranged between Rs.6.5 crore - Rs.8.33 crore as against no major repayment obligation during last three years ended FY2022. The accruals are expected be within Rs. 10.50 to 11.50 crore, as against repayment obligation of Rs.3.75 to Rs. 4.07 crore for upcoming three years through FY2023-2024. The GCA days stood at 85 days as on March 31, 2022. The bank limit utilization stood high in the range of 90-95 percent. The current ratio of the Company stood at 1.87 and unencumbered cash and bank balance stood at Rs.8.78 Crore as on March 31 2022. Acuite believes that SJIL liquidity position is expected to remain adequate in view of the moderate net cash accruals against debt repayment obligations.

Outlook:

Not applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	841.19	575.56
PAT	Rs. Cr.	8.07	6.02
PAT Margin	(%)	0.96	1.05
Total Debt/Tangible Net Worth	Times	1.11	1.11
PBDIT/Interest	Times	2.59	2.31

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

CRISIL vide its Press Release dated 28th December, 2018 has declared Swarnsarita Jewels India Limited as "Issuer Non-co-operating" and has withdrawn the rating.

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2022	Proposed Bank Facility	Long Term	0.38	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	75.00	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	15.00	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.62	ACUITE BB+ Stable (Reaffirmed)
28 Jun 2021	Working Capital Term Loan	Long Term	3.62	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	15.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	75.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.38	ACUITE BB+ Stable (Reaffirmed)
30 Mar 2020	Cash Credit	Long Term	70.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB+ Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BB+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE BB+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.38	ACUITE BB+ Reaffirmed & Withdrawn
Union Bank of India	Not Applicable	Working Capital Term Loan	23 Mar 2021	9.25	30 Apr 2026	Simple	15.00	ACUITE BB+ Reaffirmed & Withdrawn
Yes Bank Ltd	Not Applicable	Working Capital Term Loan	24 Jun 2020	9.25	25 May 2025	Simple	3.62	ACUITE BB+ Reaffirmed & Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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