

Press Release

Sumangalee Jewellers

03 May, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA B+ /Outlook: Stable (Reaffirmed)

**Refer annexure for details*

SMERA has reaffirmed long term rating of **'SMERA B+' (read as SMERA B plus)** on the Rs.7.00 crore bank facilities of Sumangalee Jewellers. The outlook is **'Stable'**.

The Tamil Nadu-based SG Group is engaged in the retailing of jewellery since September 2013 through its two firms Sumangalee Jewellers (established in 1996) and AMR Sumangalee Jewellers (established in July 2013). The day-to-day operations of the group are managed by Mr. P. Arumugam, Mr. P. Manivel, and Mr. P. Ravikumar.

Analytical approach:

SMERA has consolidated the business and financial risk profiles of AMR Sumangalee Jewellers and Sumangalee Jewellers, hereinafter referred as SG Group. The consolidation is mainly on account of similarity in the line of business, strong operational & financial synergies and common management.

Key rating drivers

Strengths

Extensive industry experience of promoters

SG Group, incorporated in 1996 has an established presence in the market. The Partners, Mr. P. Arumugam, Mr. P. Manivel and Mr. P. Ravikumar have more than two decades of experience in the gems and jewellery industry. SG Group is backed by an experienced management, hence, has been able to generate healthy relations with suppliers as well as clients for more than two decades.

Moderate financial risk profile

SG group has moderate financial risk profile marked by net worth of Rs.11.59 crore in as on 31 March 2017 as against Rs.10.06 crore as on 31 March 2016. The gearing stood relatively high at 1.64 times as on 31 March, 2017 which deteriorated marginally from 1.52 times as on 31 March, 2016. The total debt of Rs.19.00 crore comprises of working capital borrowings of Rs.14.81 crore and unsecured loans of Rs.4.11 crore and term loan of Rs.0.08 crore. Interest Coverage Ratio (ICR) stood at 1.71 times in FY2017 as against 1.44 times in FY2016. Going forward, SMERA expects the group to maintain its financial risk profile in of the absence of debt funded capex plans in the near term.

Weaknesses

Working capital intensive operations

The operations are working capital intensive marked by Gross Current Asset (GCA) days of 175 in FY2017 compared to 128 in FY2016. The GCA days are mainly dominated by high inventory days of 174 in FY2017 and 124 in FY2016. The working capital limits were ~85 percent utilised in the past six months. SMERA believes that efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

Uneven revenue trend

SG Group reported operating income of Rs.57.23 crore for FY2017 as against Rs.65.27 crore in FY2016 as against Rs.66.09 crore in FY2015. Further, the group has achieved revenue of ~Rs. 58.00 crore for FY2018. The changes in revenue can also be attributed to increased competition and change in government policies.

Profitability susceptible to volatility in raw material prices

SG Group's revenues and profitability margins are exposed to volatility in the prices of gold - the major raw material.

Intense market competition

The Gems & Jewellery (G&J) industry is characterised by a large number of organised and unorganised players resulting in pressure on margins.

Outlook – Stable

SMERA believes that SG Group will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	57.23	65.27	66.09
EBITDA	Rs. Cr.	4.22	3.35	3.21
PAT	Rs. Cr.	1.18	0.61	0.38
EBITDA Margin	(%)	7.37	5.13	4.86
PAT Margin	(%)	2.06	0.94	0.57
ROCE	(%)	15.07	12.53	11.74
Total Debt/Tangible Net Worth	Times	1.64	1.52	2.00
PBDIT/Interest	Times	1.71	1.44	1.31
Total Debt/PBDIT	Times	4.25	4.34	5.23
Gross Current Assets (Days)	Days	175	128	138

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21-Mar-2017	Cash Credit	Long Term	7.00	SMERA B+ / Stable (Reaffirmed)
21-Mar-2017	Proposed Long Term Loan	Long Term	2.09	SMERA B+ / Stable (Withdrawn)
03-Nov-2015	Cash Credit	Long Term	7.00	SMERA B+ / Stable (Reaffirmed)
03-Nov-2015	Proposed Bank Facility	Long Term	2.09	SMERA B+ / Stable (Reaffirmed)
16-Jul-2014	Cash Credit	Long Term	7.00	SMERA B+ / Stable (Assigned)
16-Jul-2014	Term Loan	Long Term	2.09	SMERA B+ / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA B+/Stable (Reaffirmed)

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ABOUT SMERA

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