RMC Gems India Limited

February 01, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short Term Bank Facilities	51.00	CARE A4+ (A Four Plus)	Reaffirmed
Total	**51.00 (Rs. Fifty-One Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of RMC Gems India Limited (RGIL) continues to remain constrained on account of modest scale of its operations, moderate capital structure, moderately weak debt coverage indicators and stretched liquidity with elongated operating cycle in highly competitive and unorganized gems and jewellery industry. The rating, further, is constrained on account of risk associated with exposure to subsidiary/other parties, geographical as well as customer concentration risk and susceptibility of its profitability to adverse fluctuations in raw material prices and foreign exchange rates.

The above constraints outweigh the benefits derived from long-standing experience of the promoters in the coloured gemstones business along with its moderate albeit fluctuating profitability margins.

CARE also takes cognizance of the company availing the moratorium granted by two of its lenders as a Covid relief measure (as permitted by the Reserve Bank of India) for its term loan facilities.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sizeable increase in scale of operations along with greater customer and geographical diversification on a sustainable basis
- Contraction in operating cycle to less than 200 days
- Improvement in overall gearing below 1 time

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Decline in its TOI to less than Rs.50 crore
- PBILDT margin falling below 8% on sustained basis
- Deterioration in its overall gearing beyond 2.00 times
- Any further significant increase in exposure to subsidiary/other parties adversely impacting its liquidity

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with high customer and geographical concentration

The company is 100% Export Oriented Unit and thus the impact on its sale following outbreak of COVID-19 pandemic around the world was seen from December, 2019 which resulted in decline in its Total Operating Income (TOI) by around 23.78% to Rs.82.46 crore in FY20 on y-o-y basis. RGIL generates majority of its net sales from Hong Kong and Thailand with top 6 customers contributing around 99.55% of net sales during FY20 thereby indicating high customer as well as geographical concentration. Further, during 9MFY21, the company has reported net sales of Rs.50.61 crore. Further, as articulated by the management, the company has confirmed orders of around Rs.20.00 crore as on January 04, 2020 which are to be executed in next four months thereby providing short term revenue visibility.

Moderate capital structure and moderately weak debt coverage indicators

The capital structure of the company remained moderate with overall gearing of 1.33 times as on March 31, 2020; improved from 1.85 times as on March 31, 2019 mainly on account of repayment of unsecured loans during the year.

RGIL's debt coverage indicators have also exhibited improvement and remained moderately weak with total debt to GCA of 18.41 times as on March 31, 2020 improved from 26.49 times as on March 31, 2019 due to decrease in total debt along with increase in its GCA level. Further, interest expense also improved from 1.58 times in FY19 to 1.96 times in FY20, which can be attributed to higher proportionate decrease in interest expenses than in PBILDT.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Exposure to subsidiary and other parties
The company's exposure (investments and loan advances) in its US based subsidiary, RMC Inc. remained unchanged from its level as on March 31, 2019 and stood at Rs.42.58 crore as on March 31, 2020. The company has also advanced loans to other parties outstanding of which stood at Rs.3.39 crore as on March 31, 2020 (Rs.1.51 crore as on March 31, 2019) Against this, the company had unsecured loans of Rs.31.72 crore from promoter group as on same date which reduced from Rs.52.86 crore as on March 31, 2019. Any further significant increase in exposure to subsidiary/other parties will be a key rating sensitivity.
During FY20, board of directors of the company decided to convert loan of USD 33,00,000 (Rs.22.59 crore) given to RMC Inc. into equity share capital by way of allotment of equity shares.

Impact of COVID-19
The Covid-19 pandemic halted the business operations of the company and manufacturing operations were shut from March 22, 2020 and the company commenced its operations from end of May, 2020. As articulated by the management it is presently not facing any issues with respect to labor shortage, raw-material procurement or logistics services.
Presently the company has sanctioned limits from three banks. In the case of two lenders, it has availed moratorium on EMI's for its term loans which is provided by the RBI as a Covid-19 relief measure for a period of six months ending on August 31, 2020. For EMI, the tenure of term loan has been extended by 6 months each in case of these two lenders.
However, from third lender, there is only working capital limit and the company has not sought any moratorium on it and as confirmed by the banker, it is regularly paying its interest obligation. However, the company has availed loan under COVID-19 relief packages of Rs.2.12 crore on May 12, 2020 with moratorium of six months and to be repaid in 18 equal monthly instalments. Further another COVID loan was availed amounting to Rs.1.47 crore on October 27, 2020, the same is to be repaid in 36 monthly instalment post moratorium of 12 months.

Risk associated with raw material prices and foreign exchange rate fluctuation
The basic raw material for RGIL is rough gemstones. Hence the prices of its raw materials, for manufacturing, vary in line with those of international prices of rough gemstones which make RGIL's profitability susceptible to volatility in raw material prices. RGIL mainly sources its raw material from foreign countries with total procurement from foreign countries constituting around 83.05% of total raw material consumption cost in FY20 while the remaining was sourced from the domestic market (mainly Jaipur). Further, the company generates 100% of its sales through exports. Thus, RGIL has natural hedge for part of its exports. However, being a net exporting company, any adverse fluctuation in foreign currency can impact the profitability of RGIL as the company does not follow any active hedging policy.

Presence in highly competitive and unorganised gems and jewellery industry
Indian Gems & Jewellery market is highly fragmented across the value chain with around 80% of players operating in the unorganized sector, which are mostly family run labour intensive, and use indigenous technology. MSMEs form major constituents of the unorganized Gems and Jewellery market of India. RGIL operates from Jaipur in Rajasthan which is a key centre for polishing precious and semi-precious gemstones both natural and synthetic, carving, bead-making, stringing, manufacture of art objects and has presence of numerous players dealing in the business of precious and semi-precious gemstones thus resulting in higher competition.

Liquidity: Stretched
RGIL's liquidity remained stretched marked by elongated operating cycle, highly utilized bank limits and low cash and bank balance of Rs.0.15 crore as on March 31, 2020. Further, the company expects lower cushion in cash accruals vis-à-vis debt repayments. Its average working capital utilization level stood high with almost full utilization during last 12 months ended November, 2020 along with elongated working capital cycle on account of higher collection period as well as higher quantum of raw material and finished goods inventory that it maintains. As is the case with most gems & jewellery exporters, the company has an elongated operating cycle of 456 days in FY20, increased further from 366 days in FY19, mainly due to increase in average inventory period as well as increase in average collection period with a decline in scale of operations. However, inventory, receivables and payables stood at Rs.40.93 crore, Rs.58.43 and Rs.14.34 respectively as on December 31, 2020 against Rs.39.27 crore , Rs.52.28 crore and Rs.10.43 crore respectively as on March 31, 2020. The company provides credit period of around 5-6 months to its customers while it gets credit of around 30 days for raw material from domestic suppliers and is required to make payment within a day's time to its foreign suppliers. However due to uncertainty prevailing due to COVID-19 pandemic, company is receiving extended credit period of around 60-90 days from its foreign suppliers.
Further, the liquidity ratios of the company remained moderate with current ratio at 1.60 times; while quick ratio stood below unity at 0.98 times as on March 31, 2020. Moreover, its cash flow from operating activities increased from Rs.2.35 crore in FY19 to Rs.30.50 crore in FY20 due to decrease in inventory level.

Key rating strengths

Long standing presence of promoters

RGIL was incorporated in 2001 by Mr. Nirmal Kumar Bardiya along with his wife Ms. Kusum Bardiya and is largely run as a family managed business. RGIL is engaged in processing of precious and semi-precious gemstones at its 100% Export Oriented Unit (EOU) located at Sitapura in Jaipur. The company procures raw material directly from suppliers in both the domestic as well as overseas markets and performs cutting and polishing activity in their factory. Major portion of its raw material requirement is met through imports from Hong Kong, Brazil, Thailand, Germany, Nigeria and Ethiopia while the remaining is sourced from the domestic market (mainly Jaipur).

Moreover, in FY20, the company bought entire plant and machinery of its group concern; Bardiya Gems & Jewellery Co. at book value amounting to Rs.1.09 crore. According to the management, the plant and machinery is of new technology and has better automation system and thus the company expects to improve the quality of its products.

Moderate albeit fluctuating profitability margins

PBILDT margin of the company has exhibited fluctuating trend during the past three years ended March 31, 2020 on account of risk associated with volatility in raw material prices i.e. rough gemstones as the same varies in line with international prices which along with limited pricing power in the competitive market scenario restricts its profitability. During FY20, PBILDT margin of the company increased by 143 bps and remained moderate at 14.24% owing to significant decrease in employee cost. Further, PAT margin also increased in line with increase in PBILDT margin albeit by higher 721 bps over FY19 to 9.53% in FY20 owing to decrease in interest expenses along with MAT credit entitlement of Rs.4.33 crore. During FY20, interest expenses on unsecured loans from directors stood nil (against Rs.3.07 crore in FY19) resulting in decrease in interest expenses during the year. The GCA level of the company increased by 16.66% in FY20 over FY19 and remained moderate at Rs.5.05 crore.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in 2001, RMC Gems India Ltd. (RGIL) is promoted by Mr Nirmal Kumar Bardiya along with his wife Ms Kusum Bardiya. The company is engaged in the business of processing and export of precious and semi-precious gemstones like Tourmaline, Topaz, Ruby, Amethyst and Citrine through its unit located at Sitapura Industrial Area in Jaipur. It exports processed gemstones mainly to Hong Kong, Thailand and Japan. RGIL during FY16 had also entered into United States of America market through its subsidiary i.e. RMC Gems and Jewellery Inc., USA (RMC Inc). Presently, RMC Inc. has two subsidiary namely, International Gems and Minerals INC, (IGM) and Centre Pointe Pacific LLC., USA (CPPL). IGM (which started its operations from FY18 onwards) is engaged in trading of gemstones and primarily caters to US market. Further, RMC Inc. has acquired remaining 50% of shareholding during FY20 in CPPL, whose prime source of revenue is through rent earned from its building.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	108.18	82.46
PBILDT	13.86	11.74
PAT	2.51	7.86
Overall gearing (times)	1.85	1.33
Interest coverage (times)	1.58	1.96

A: Audited

As per the provisional results, the company has reported net sales of Rs.50.61 crore during 9MFY21.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	42.50	CARE A4+
Fund-based - ST-Line of Credit	-	-	-	8.50	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-EPC/PSC	ST	42.50	CARE A4+	-	1)CARE A4+ (02-Jan-20)	1)CARE A3 (04-Jan-19)	1)CARE A3 (15-Feb-18)
2.	Fund-based - ST-Line of Credit	ST	8.50	CARE A4+	-	1)CARE A4+ (02-Jan-20)	1)CARE A3 (04-Jan-19)	1)CARE A3 (15-Feb-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-EPC/PSC	Simple
2.	Fund-based - ST-Line of Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.