Moksh Ornaments Limited

December 01, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	33.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	12.00	CARE A3 (A Three)	Assigned
Total Bank Facilities	**45.00 (₹ Forty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Moksh Ornaments Limited (MOL) derives strength from the extensive experience of the promoters in Gems and Jewellery (G&J) industry with long track record of operations, MOL's established market position in gold jewellery industry, vast geographical reach along with well-established and diversified customer base. The ratings are also supported by moderate scale of operations with healthy growth visible in H1FY23 (refers to the period from April 01 to September 30), comfortable capital structure and debt coverage indicators coupled with moderate operating cycle albeit operations being working capital intensive. CARE Ratings expects the company to achieve the envisaged turnover and profitability along with solvency and debt protection metrics owing to uptick in the revenue growth going forward, backed by healthy demand of gold jewellery from domestic market.

The above rating strengths, however continue to be tempered by modest profitability margins and cash accruals owing to limited value addition, profit margins susceptible to foreign currency fluctuation, volatile raw material prices and strong competition from organized and unorganized players in the industry.

Rating Sensitivities

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

- Improved scale of operations with improvement in operating margins resulting in net cash accruals sustaining above 10 crore. on a sustained basis.
- Significant Improvement in operating cycle.

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

- Decline in revenue or lower PBILDT margin resulting in cash accruals below 5 crore.
- Deterioration in working capital cycle beyond 100 days on a sustained basis.
- Significant Deterioration in the capital structure.
- Any deterioration in the financial risk profile or liquidity profile owing to debt funded capex or stretch in the operating cycle.

Detailed description of the key rating drivers

Key rating strengths

Experienced management and established market position in Gold Jewellery Industry

Moksh Ornaments Limited was incorporated as a private limited company on July 19, 2012 which further got converted to public limited company on September 07, 2017. The company is promoted by Mr. Jawanmal M. Shah and Mr. Amrit J. Shah having experience of over two decades in the Jewellery industry.

The promoters of the company possesses wide experience of more than four decades in the gems and jewellery industry which have helped to develop strong and elongated relationship with customers as well as suppliers which ensure smooth functioning day to day business.

Vast geographical reach and well established and diversified customer base

MOL caters to customers based largely in Maharashtra and Madhya Pradesh and gets the gold jewellery like bangles etc. manufactured from artisans based in Kolkata and vertical chains in Mumbai. The company is a B2B player and supplies the manufactured products to various retailers. The company does export as well as domestic sales wherein export sales contributed to 16.30% of the total revenue in FY22 vis-à-vis 29.63% of the total revenue in FY21 with 100% export sales to UAE, whereas the rest constituted domestic sales. MOL has long established relationship with its clients and the sales are largely to the regular customers indicating repeated orders. In FY22, top 10 customers accounted for nearly 38.13% (vis-à-vis 32.08% in FY21 and 59.11% in H1FY23) of the overall revenues indicating that the customer base is well diversified.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Moderate scale of operations with healthy growth visible in H1FY23
The scale of operations of the company marked by Total operating income (TOI) remained stable over past three years ending March 31, 2022 and remained in the range of Rs. 324.65 crore to Rs. 346.97 crore during FY20 to FY21. However, the total operating income de-grew y-o-y marginally with the company reporting TOI of Rs. 324.65 crore in FY22 vis-à-vis Rs. 338.24 crore in FY21 reflecting marginal decline of 4.02% in FY22 over FY21 which is basically owing to muted demand sentiments.
MOL has booked the sales of Rs. 215.76 crore in H1FY23 (April 2022 to Sept 2022) and has in hand order book of Rs. 29.46 crore as on November 14, 2022 to be executed this fiscal.

Comfortable capital structure and debt coverage indicators
The capital structure of the company marked by overall gearing ratio improved marginally and stood comfortable at 0.08x as on March 31, 2022 vis-à-vis 0.88x as on March 31, 2021 owing to increase in the net worth base from Rs. 40.24 crore in FY21 to Rs. 44.86 crore in FY22 along with reduction in the debt level led by lower dependence on working capital bank borrowings as on balance sheet date and repayment of term loan availed from banks. The capital structure is envisaged to remain comfortable going forward given the improvement in tangible net worth base and moderate debt position.
Debt protection metrics viz. Total Debt to GCA improved significantly and stood at 0.78x in FY22 vis-à-vis 5.59x in FY21 on account of lower debt level. Interest coverage ratio also showed significant improvement from 2.63x in FY21 to 8.33x in FY22 owing to savings in interest expense, thereby remaining satisfactory. Thus, the debt protection metrics remained satisfactory.

Moderate operating cycle albeit operations being working capital intensive
MOL's working capital cycle days remained moderate in the range of 52 to 68 days during the period FY19 to FY22 and the same has shown improvement from 68 days in FY21 to 64 days in FY22 owing to improvement in collection, inventory and creditor days. The operations of MOL remained moderately working capital intensive marked by funds being utilized towards debtors and inventory. However, the inventory days reduced from 28 days in FY21 to 22 days in FY22. Further the collection period also remained stable at 43 days in FY21 and 42 days in FY22. MOL procures gold on advance basis from registered dealers and banks. Average working capital utilisation of fund-based facilities of MOL remained almost full during past twelve months ending October 2022.

Key rating weaknesses
Moderate profit margins susceptible to volatility in raw material prices
MOL's PBILDT margins remained moderate and fluctuating ranging between 2.38%-2.96% in the past three years ended FY22 on account of movement in prices of raw materials along with realizations from receivables and foreign exchange fluctuation. The PBILDT margin of the company has reduced to 2.38% during FY22 as compared to 2.96% during FY21 owing to lower realizations fetched through sale of jewellery in FY22 along with slight increase in employee costs. The PAT margin also stood at 1.58% in FY22 vis-à-vis 1.67% in FY21. Further, in H1FY23, the PBILDT and PAT margin stood at 2.05% and 1.23% respectively. Going forward, with the wedding season upcoming, the demand for gold jewellery is expected to remain robust and the margins are also expected to expand.

Foreign exchange fluctuation risk
MOL continues to derive 16.30% revenue from export sales so operational performance of the company is exposed to foreign exchange fluctuation risk. Further, the company does not import thereby not providing the benefit of natural hedge. However, MOL has availed forward cover limit from the banks to hedge its risk on foreign currency exposure. The margins of MOL are susceptible to the gold prices which depend on the international commodity market as well as the forex fluctuations. Nevertheless, the foreign exchange fluctuation continues to persist due to timing differences. The company had reported profits on account of exchange rate fluctuations amounting to Rs. 0.63 crore during FY22 (vis-à-vis Rs. 1.48 crore in FY21).

Presence in highly competitive and fragmented Gems & Jewellery industry
The Gems & Jewellery (G&J) industry is a highly fragmented industry with a high level of competition from both the organized and largely unorganized sector. Moreover, the global macroeconomic environment continues to remain uncertain and poses a major challenge for the G&J industry, which is mainly export-driven. Furthermore, in the wake of the recent adverse global macroeconomic developments, the G&J industry has seen a slowdown in demand and the players have to offer high credit period to its customers.

Liquidity: Adequate
Liquidity is marked or supported by satisfactory gross cash accruals being generated over the past few years. Company's average fund-based utilization for past 12 months ending Oct 2022 stood fully utilized against the sanctioned fund-based limits. The company has free cash and bank balance of Rs. 1.21 crore as on March 31, 2022 vis-à-vis Rs. 0.10 crore as on March 31, 2021. Also, cash flow from operating activities remained positive at Rs. 26.27 crore in FY22 vis-à-vis positive cash flow operations at Rs. 0.52 crore in FY21. Further, current ratio and quick ratio remained comfortable at 20.04x and 13.83x respectively as on March 31, 2022 vis-à-vis 2.26x and 1.58x respectively as on March 31, 2021. Besides, the company has no major capex plans over the medium term

Analytical approach: Standalone

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Moksh Ornaments Limited (MOL) was incorporated as a private limited company on July 19, 2012 which got converted to public limited company on September 07, 2017. The company is promoted by Mr. Jawanmal M. Shah and Mr. Amrit J. Shah having healthy experience in the jewellery industry.
The company is engaged in manufacturing and wholesale of gold jewellery comprising of various products viz. bangles, chain and necklaces on job work basis from its units located at Kolkata and Mumbai. At Mumbai unit, only vertical chains are manufactured while at Kolkata, only bangles are manufactured. The company procures gold and gold bullion, which is the major raw material for manufacturing of gold jewellery from registered and authorized dealers viz. banks such and various gold bar dealers based in Mumbai.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	338.24	324.65	215.76
PBILDT	10.01	7.72	4.42
PAT	5.66	5.13	2.66
Overall gearing (times)	0.88	0.08	0.49
Interest coverage (times)	2.68	8.52	5.46

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	21.52	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	December 31, 2025	11.48	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	12.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	11.48	CARE BBB-; Stable				
2	Fund-based - LT-Cash Credit	LT	21.52	CARE BBB-; Stable				
3	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A3				

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

<table>
<tr><th>Name of the Instrument</th><th>Detailed explanation</th></tr>
<tr><td>A. Financial covenants</td><td></td></tr>
<tr><td>1. Adverse deviation from stipulated level in respect of any two of the following parameters:
I. DSCR – 1.87
II. Interest Coverage – 5.56
III. Debt/EBITDA – 17.00</td><td>Adverse deviation from the acceptable level for covenant testing beyond which penal provisions would be invoked (per parameter)
<table>
<tr><td>Up to 5%</td><td>NIL</td></tr>
<tr><td>More than 5% and up to 10%</td><td>25 bps p.a.</td></tr>
<tr><td>More than 10%</td><td>50 bps p.a.</td></tr>
<tr><td>Penal interest would be charged retrospectively from the date of audited Balance Sheet on the basis of which, covenants have been tested, for the period of breach.</td><td></td></tr>
</table></td></tr>
<tr><td>B. Non-financial covenants</td><td></td></tr>
<tr><td>1. Books of accounts</td><td>The Borrower should maintain adequate books of accounts, as per applicable accounting practices and standards, which should correctly reflect its financial position and scale of operation and should not radically change its accounting system without notice to the Bank</td></tr>
</table>

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications

Contact us

Media Contact
Name: Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Vikash Agarwal
Contact no. - +91-22-67543408
Email ID: vikash.agarwal@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no. - 022-67543404/136
E-mail: saikat.roy@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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