Vaibhav Global Limited

September 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	110.00 (Reduced from 153.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**110.00 (₹ One Hundred Ten Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) continue to derive strength from the vast experience of its promoters in the manufacturing of gemstone studded fashion jewellery & e-retail segment, its end-to-end vertically integrated operations, sustained growth in its scale of operations during FY22 (refers to the period April 01 to March 31) and comfortable financial risk profile. The rating also takes into account successful completion of capex (in various regions) in FY22 along with commencement of its Germany operations.

The ratings, however, continue to remain constrained by geographical concentration of its revenue (mainly dependent on USA and UK markets) and susceptibility of its scale of operations to economic slowdown, local regulations and intense competition. The ratings also continue to remain partially offset due to working capital intensity of its operations due to high inventory holding, susceptibility of its profitability to volatility in exchange rate & raw material prices and the risk of bad debt/write-off on budget pay (EMI scheme) sales.

CARE has withdrawn the rating assigned to the bank facility of bank guarantee and Credit exposure limit (CEL) as it has been discontinued as per the latest bank sanction letter.

Rating sensitivities

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

- The total operating income (TOI) of more than Rs.3500 crore through greater geographical diversification of its revenue with improvement in its operating profitability (PBILDT) margin above 13% on a sustained basis.
- Reduction in operating cycle below 60 days on sustained basis
- Sustaining the comfortable capital structure and debt coverage indicators at current levels while further improving liquidity on standalone level

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

- PBILDT margin falling below 11% on a sustained basis
- Any major debt funded capex resulting to deterioration in capital structure with overall gearing moderating beyond 0.50 times
- Significant increase in receivable/inventory level or bad debts affecting cash flows and profitability
- Any regulatory changes or slowdown in key markets (USA and UK) impacting the business of the company at consolidated level

Detailed description of the key rating drivers

Key Rating Strengths

Sustained growth in total operating income and moderate profitability:

VGL's TOI (at a consolidated level) largely remined stable with 8% growth on y-o-y basis to Rs.2757.03 crore in FY22 (PY: Rs. 2540.07 crore) on account of healthy growth in sales volume and new product launches across jewellery and non-jewellery product segment in its key markets i.e. USA and UK. VGL derived around 70% of its TOI in FY22 from sale of gemstone-studded jewellery and balance 30% was generated from sale of lifestyle and beauty products. Revenue from B2C segment continues to constitute around 98% of total consolidated during FY22, with growth in TV and Web revenue by ~6% (to Rs.1699 crore) and ~9% (to Rs.986 crore) respectively. Revenue from sales through budget pay EMI scheme increased and constituted around 39% (36% in FY21) of B2C revenue in FY22.

However, the PBILDT margin of VGL moderated albeit remained healthy at 10.38% in FY22 (PY:14.58%) primarily on account of increase in content and broadcasting expenses (to 14.06% as a percentage of cost of sales in FY22 as compared to 11.36% as a percentage of cost of sales in FY21) primarily due to commencement of its Germany operations in FY22

Consequently, the PAT margin also moderated marginally by 210 bps to 8.60% in FY22 (PY:10.70%). At a consolidated level, VGL reported GCA of Rs. 288.63 crore in FY22 (PY: 312.50 crore).

On a standalone level, VGL's TOI remained stable at Rs. 496.17 crore (PY: Rs.452.52 crore).

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

Successful completion of capex

During FY22, VGL undertook the capex towards increasing the investment in OTT (Over-the-top), launching of new brand in clothing & jewellery, incurring digital investments on technology infrastructure and customer experience in UK and USA, implementation of GEEK+ warehouse robotic automation at the warehouse and purchase of land for setting up new integrated headquarters in USA.

Further, VGL has incorporated one new subsidiary- Shop LC Gmbh, Germany to start B2C business in Germany. Th entity commenced its operations (with a proprietary TV sales platforms Shop Gmbh) in FY22 and it reaches to the customer in Germany and Austria. VGL has also acquired 60% stake in the packaging company to enhance VGL's supply chain network by providing required flexibility and cost advantage.

VGL incurred the total capital expenditure cost of ~Rs. 257 crore towards the aforementioned capex which is entirely funded by the free cash and bank balance.

Comfortable capital structure and debt coverage indicators:

The capital structure of VGL is comfortable marked by healthy net worth base supported by strong cash accruals & lower debt levels resulting in overall gearing at 0.17 times as on March 31, 2022 (P.Y. end 0.14 times).

The debt coverage indicators stood comfortable marked by interest coverage and total debt to GCA of 46.92 times in FY22 (PY: 79.97 times in FY21) and 0.57 times as on March 31, 2022 (PY: 0.47 times as on March 31, 2021) respectively. VGL's total debt to PBILDT remained comfortable at 0.58 times in FY22 (FY21: 0.34 times).

On a standalone level, VGL's capital structure stood comfortable with overall gearing of 0.16 times as on March 31, 2022 (P.Y end: 0.16 times) with healthy debt coverage indicators.

Vertically integrated business model with strong presence and coverage in USA & UK with commencement of operations in Germany

Owned manufacturing facilities in India for jewellery, strong sourcing arrangements in over 20 countries through WOS from China, Hong Kong, Indonesia, etc. has helped VGL to reduce delivery times. Further, marketing goods through proprietary channels and increasing its presence on web platforms, online marketplaces and social commerce platforms has helped VGL to improve its presence in the e-retail market. Under the retail division, VGL reported TV coverage of around 124 million households (104 million households in FY21) on full time equivalent (FTE) basis in UK and US with more than ~5 lakh unique customers and 3.18 lakh new customer registrations in FY22.

VGL has achieved CSAT (Customer Satisfaction score of 95% in both UK and USA market and 68% in Germany market.

Thus, VGL's three proprietary TV sales platforms, i.e. Shop LC in the USA, Shop TJC in the UK and Shop LC Gmbh in the Germany, out of which UK and USA account for nearly 62% of its TOI for FY22, while the balance is contributed by web platforms.

Experienced promoter group

Mr Sunil Agrawal, Managing Director & Promoter, has around four decades of experience in the gems and jewellery business. He is supported by a team of professionals and independent directors, who have vast experience in e-commerce and retail, finance, merchandising, etc. Under their leadership, the group has reported a track record of growth in e-retail of jewellery as well as lifestyle and essential products.

Key Rating Weaknesses

High geographical concentration with susceptibility of demand to economic slowdown in key markets

VGL generates majority of its revenues and profits from its subsidiaries in USA and UK. Considering demand of jewellery and lifestyle products is largely discretionary in nature, retail demand for the products and in turn VGL's business prospects is directly linked with economic scenario in its key consumer markets.

Susceptibility of profit margin to exchange rate fluctuation and raw material prices

Being a 100% Export Oriented Unit, VGL's profitability is susceptible to exchange rate movements, while the risk on unhedged net receivables is mitigated to a certain extent by availing working capital borrowings in foreign currencies, the group's profitability remains susceptible to timing differences. Moreover, VGL's profitability is also vulnerable to high volatility in the prices of key raw materials for VGL's gems and jewellery products (gemstones, gold and silver).

Intense competition with operations susceptible to strict laws and regulations

VGL's operations in USA, UK and Germany are subject to strict laws and regulations applicable to video and e-commerce business. Moreover, e-commerce retail business is highly competitive and VGL faces direct competition from other established television shopping and ecommerce retailers, traditional brick and mortar stores, discount stores, warehouse stores and speciality stores; catalog and mail order retailers in USA and UK market. VGL would need to continuously improve, upgrade, adapt and expand technology systems and infrastructure to offer value to its customers with enhanced customer experience in a costefficient and competitive manner.

Risk of bad debts

During FY22, VGL's budget pay EMI scheme constituted around 39% of total B2C sales as compared to 36% in FY21. Budget pay EMI scheme (with product return option) allows the customers to pay in interest-free monthly instalments (maximum six instalments, with the first instalment being paid upfront). While total bad debts (including b2b business bad debts) written off/provision for bad debts was 0.77% of total sales in FY22 (0.55% in FY20), any increase in bad debts or receivable levels can adversely impact the profitability and liquidity of the company; consequently, the same remains a key rating sensitivity.

High inventory holding
As VGL's business model (on consolidated basis) is largely B2C sales model, the company needs to maintain optimum inventory level of around 3 months (raw material for manufacturing at standalone level). Moreover, growing scale of operations, expansion of product portfolio and a higher lead time has resulted in increase in VGL's inventory levels. VGL's operating cycle remained stable at 86 days in FY22 (FY21: 81 days). Nevertheless, VGL liquidates its slow-moving inventory through rising auctions and clearance sales at a frequent interval. Furthermore, VGL's receivables level remain low since majority of retail sales are on cash basis. Current ratio and quick ratio stood around 2.24 times and 1.02 times as on March 31, 2022 (PY:3.13 times and 1.94 times) respevtively.

Liquidity-Strong
VGL has strong liquidity characterized by sufficient cushion in its cash accruals vis-à-vis its neglible term debt repayment obligations, stable operating cycle and healthy free cash & bank balance (incl. investments) of Rs. 189.76 crore (PY: Rs.468 crore) as on March 31, 2022. During FY22, VGL undertook capex of Rs. ~257 crore which is entirely funded through available free liquidity providing sufficient support to the operations of the company.
Further, the utilisation of working capital limits remained modest at 46% during the trailing 12-months ended March 31, 2022. However, the group reported moderation in cash flow from operations in FY22 to Rs. 87.94 crore (PY: 325.79 crore) on account of increase in current assets level (primarily inventories and trade receivable) along with moderation in operating profit.
Going forward, VGL is expected to generate GCA of around Rs.251-356 crore which is sufficient to meet any capex requirement and repayment obligations.

Analytical approach: Consolidated. The company has operational synergies with its subsidiaries and hence consolidated approach has been considered. List of subsidiaries and step-down subsidiaries has been attached as Annexure- 3

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings
Criteria for Retail Trading

About the company
Incorporated on May 08, 1989, VGL is a 100% Export Oriented Unit (EOU) having manufacturing set-up for gemstone studded jewellery at Sitapura, Jaipur along with diamond sourcing and manufacturing unit at Mumbai. VGL manufactures low-cost gemstone studded jewellery primarily made of silver and other metals. VGL also sells fashion accessories, lifestyle products and textile and home décor products sourced from various micro markets including India, China, Thailand and Indonesia. VGL retails the products through two proprietary 24 hour TV channels [Shop LC in USA & Canada and The Jewellery Channel (TJC) in UK] on all the major cable, satellite and DTH platforms. Furthermore, VGL operates e-commerce websites in US (www.shoplc.com) UK (www.tjc.co.uk) and Germany (www.shoplc.de) and mobile applications, which complements VGL's TV coverage, while diversifying customer engagement.

Consolidated- VGL

Brief Financials (₹ crore)	March 31, 2021(A)	March 31, 2022 (A)	June 30, 2022 (P)
Total operating income	2540.07	2757.03	630.12
PBILDT	370.23	286.05	43.91
PAT	271.75	237.11	19.58
Overall gearing (times)	0.14	0.17	NA
Interest coverage (times)	79.97	46.92	29.27

A: Audited, P: Provisional, NA: Not Available

Standalone- VGL

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	June 30, 2022 (P)
Total operating income	452.52	496.17	111.31
PBILDT	49.04	27.31	10.23
PAT	46.83	128.85	5.54
Overall gearing (times)	0.11	0.16	NA
Interest coverage (times)	27.41	10.55	17.33

A: Audited, P: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for the 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	110.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Forward Contract		-	-	-	0.00	Withdrawn

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	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A1 (27-Jul-21)	1)CARE A2+ (20-Nov-20) 2)CARE A2+ (29-Apr-20)	1)CARE A2+ (13-Nov-19)
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	110.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (27-Jul-21)	1)CARE A-; Positive / CARE A2+ (20-Nov-20) 2)CARE A-; Stable / CARE A2+ (29-Apr-20)	1)CARE A-; Positive / CARE A2+ (13-Nov-19)
3	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (13-Nov-19)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A1 (27-Jul-21)	1)CARE A2+ (20-Nov-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Forward Contract	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 instruments: CARE Ratings 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.

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About us:
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