

RMC Gems India Limited

February 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Short Term Bank Facilities	34.50 (Reduced from 38.50)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating to the bank facilities of RMC Gems India Limited (RGIL) continues to factor in the modest scale of operations with high geographical as well as customer concentration risk and susceptibility of its profitability to adverse fluctuations in raw material prices and foreign currency exchange rates along with its presence in the highly competitive and unorganized gems and jewellery industry. The rating is also tempered on account of working capital intensive nature of operations and stretched liquidity. 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 and moderate solvency position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations with a total operating income (TOI) exceeding Rs.150 crore on a sustained basis
- Improvement in the operating cycle below 200 days on a sustained basis
- Improvement in PBILDT margin above 13% and PAT margin above 6% on a sustained basis

Negative factors

- Deterioration in the capital structure with the overall gearing exceeding 1.5x on a sustained basis
- Any further significant increase in exposure to subsidiary/other parties adversely impacting its liquidity

Analytical approach: Standalone

Key weaknesses

Modest scale of operations with high customer and geographical concentration: During FY22 (refer to the period April 01 to March 31), the TOI stood at Rs. 138.12 crore as against Rs.80.41 crore in FY21. During FY22, Income Tax search operation was conducted at RGIL's premises, post which RGIL surrendered the "income which was due to difference in stock value" and the same was recorded under "Revenue from Operations", which resulted in higher income, profits and improvement in the net worth. Further, during 9MFY23 (refer to the period April 01 to December 31), the company has reported TOI of Rs. 62.76 crore. RGIL generates majority of its revenue from Hong Kong and Thailand with top 6 customers contributing 100% of net sales during FY22 thereby indicating high customer as well as geographical concentration.

Working capital intensive nature of operations: RGIL's operations are highly working capital intensive in nature supported largely by bank borrowings and unsecured loans infused by promoters. Its average working capital utilization level stood high at 98% during last 12 months ended December 2022 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 had an elongated operating cycle of 423 days in FY22 (vis-à-vis 406 days in FY21).

Exposure in subsidiary: The company's exposure (investments and loan advances) in its US based subsidiary, RMC Inc. remained unchanged from its level as on March 31, 2020 and stood at Rs.42.58 crore as on March 31, 2022. Against this, the company had unsecured loans of Rs.6.39 crore from promoter group as on same date. Upon adjusting the exposure to subsidiary from RGIL's net-worth, adjusted overall gearing stood at 0.92 times as on March 31, 2022 (3.46 times as on March 31, 2021).

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 and remaining are 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 fluctuation in currency can impact the profitability of RGIL as the company does not follow any active hedging policy.

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

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 semiprecious 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.

Key strengths

Long standing presence of promoters in the coloured gemstones business: 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. With long track record of operation in the industry, the promoters have developed strong network of contacts and have been able to establish relationship with their customers as evinced by regular flow of orders. These factors have helped the company to cement its position in the competitive market.

Moderate solvency position: The capital structure of the company remained moderate with overall gearing of 0.55 times as on March 31, 2022 vis-à-vis 1.38 times as on March 31, 2021. Net worth was seen higher mainly as a result of RGIL surrendering the "income which was due to difference in stock value" after an Income Tax search operation.

The same improved on account of schedule repayment of loans and accretion of profit to reserves. Further, the debt coverage indicators have improved and remained moderate as at the end of FY22.

Moderate profitability margins: PBILDT margin of the company has exhibited fluctuating trend during the past three years ended on FY22 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 FY22, the PBILDT margin and PAT margin stood at 35.61% and 24.12% in FY22. The higher margin was on account of difference in stock value which was recorded under "revenue from operations".

Liquidity: Stretched

Liquidity position remained stretched as indicated by average utilisation of Packing credit and post shipment credit limit to an extent of 98% over the last 12 months ended December 2022. Further, the operating cycle of the company also stood high at 423 days during FY22 mainly due to stretch in collection and inventory period. During FY22, the company has availed loan under Guaranteed Emergency credit line scheme worth Rs.11.00 crore to support the operations of the firm. The firm has sufficient accruals to fulfil the debt obligations due in Q4FY23 (refers to the period January to March 2023) and FY24. The cash and bank balance stood modest at Rs.0.19 crore as on March 31, 2022.

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](#)

[Policy on Withdrawal of Ratings](#)

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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	80.41	138.13	62.76
PBILDT	5.89	49.19	NA
PAT	1.33	33.32	NA
Overall gearing (times)	1.38	0.55	NA
Interest coverage (times)	1.89	18.69	NA

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Nil

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based - ST-EPC/PSC		-	-	-	34.50	CARE A4

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 - ST-EPC/PSC	ST	34.50	CARE A4	-	1)CARE A4 (17-Mar-22)	1)CARE A4+ (01-Feb-21)	1)CARE A4+ (02-Jan-20)
2	Fund-based - ST-Line of Credit	ST	-	-	-	1)Withdrawn (17-Mar-22)	1)CARE A4+ (01-Feb-21)	1)CARE A4+ (02-Jan-20)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Non-financial covenants	
I. Stock statements	The company has to submit stock statement every month before 10th of the succeeding month and stock to be inspected periodically as per Banks guidelines

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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