

Indian Gem & Jewellery Creation Private Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	46.60 (Enhanced from 38.50)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.45 (Enhanced from 4.50)	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	53.05 (Rs. Fifty-Three Crore and Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings of Indian Gem & Jewellery Creation Private Limited (IGJCPL) takes cognizance of the moderation in performance in FY21 (refers to period April 1 to March 31), where scale was squeezed due to the pandemic, even when profit margins improved where IGJCPL benefitted from the increase in gold prices. During 9MFY22 the performance has shown sequential improvement, but the performance of some of the stores are still to pick up pace. On account of loans taken to help sail through the impact of COVID, capital structure has also seen moderation in the current fiscal. The ratings are also constrained by geographic concentration, susceptibility of margins to volatile gold prices and presence in a highly fragmented, competitive and regulated industry.

The ratings favourably factor in the vast experience of promoter in the jewellery business, its good brand presence and association with leading brands and long-term relationship with the contractual karigars.

Rating Sensitivities

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

- Growth and scale of operations as marked by total operating income of above ₹130 on sustained braces.
- improvement in profitability marked by EBITDA and pat margins of 8% and 2.5% respectively on a sustained basis.

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

- Deterioration in overall gearing above 1.80 and TD/GCA above 25 times on sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate performance, squeezed by the impact of pandemic, however, improvement in 9MFY22

The TOI of IGJCPL declined y-o-y by 29% in FY21 in the event of lockdown and volatility in gold prices, both emanating due to COVID related disruptions. The company had closed all the retail outlets since March 21, 2020, which were subsequently reopened in phases in the month of June'20. The PBILDT margin had however, improved from 6.94% in FY20 to 8.52% in FY21 primarily due to increase in gold prices, when the company had benefited from the lower cost inventory held by it.

During 9MFY22, the performance has improved with sales of Rs.75.81 crore vis-à-vis Rs.45.33 crore in 9MFY21. However, the performance of the new store is yet to pick up pace and some of the stores are still to reach pre-covid levels.

Moderation in capital structure

Owing to lower footfalls and consequent decline in performance, the company opted for COVID related loans to support liquidity. Such loans were mostly utilized towards funding higher inventory levels and reduction in the gold loan. Consequently, overall debt increased, and the gearing deteriorated from 1.03x as on March 31, 2020 to 1.15x as on March 31, 2021.

Due to working capital intensive nature of business, the already high TDGCA deteriorated from 21x as on March 31, 2020, to 44x as on March 31, 2021 on account of lower cash accruals. Interest coverage continued to be above unity at 1.30x as on March 31, 2021 (1.61x as on March 31, 2020).

Susceptibility of margins to volatile gold prices

The major raw material for IGJCPL is gold, and it also buys diamonds and other precious stones for studded jewellery. The company sources gold mainly through ICICI Bank, via bullion dealers and old gold bought from customers who come to exchange their jewellery and also tend to stay invested in gold. Gold prices have exhibited sharp volatility depending upon the demand & supply scenario and geopolitical situations; hence, the fluctuation in the gold prices has an impact on the margins of players in gems & jewellery industry

Geographic concentration of revenue

IGJCPL has been a regional player since inception, with all its six out of seven operating stores being based around Kolkata through its well-established brand-name among the local customers. The concentration of entire operations in the region

¹Complete definition of the ratings assigned are available at [HYPERLINK "http://www.careedge.in"](http://www.careedge.in) www.careedge.in and other CARE Ratings Ltd.'s publications

exposes company to any adverse developments related to competition, as well as economic, demographic and other changes in the region, which may adversely affect its business prospects, financial conditions and results of operations.

Presence in a highly competitive and fragmented and regulated industry

The G&J industry in India is characterized by the presence of a large number of organized and unorganized players. Increasing penetration of organized players who offer greater variety in terms of product-mix and jewellery design; along with customer's changing lifestyle, increasing urbanization, growing trend towards online buying and strategic marketing by the jewellers is envisaged to increase the share of organized jewellery retail segment going ahead. Furthermore, Tier-II and Tier-III cities are expected to be the major growth drivers for the domestic gold jewellery industry. Even in the jewellery retail market of Kolkata the competition is likely to remain high due to the entry of some leading national players in the city apart from the presence of large number of local players

G&J sector has been one of most regulated, given the fact gold alone makes India's second largest import bill after petroleum. Thereby, to reduce Current Account Deficit (CAD), RBI had earlier introduced regulations on domestic consumption of gold.

Although the sector is seen growing on back of fading of regulatory headwinds such as demonetization and GST implementation, it continues to remain vulnerable to regulatory risk and any adverse movement of the CAD or consequent measures taken by the government/RBI which may pose risk to the gold demand and viability of the companies in the industry.

Key Rating Strengths

Vast experience of promoters and established track record of operations in the jewellery business

The promoters of IGJCPL have vast experience of more than three decades in the jewellery business starting with a showroom at Vardaan AC market in 1984 under a partnership firm in the name of 'Indian Gem & Jewellery'. The promoters, Mr. Pramod Dugar and his sons, Mr. Prayas Dugar and Mr. Pratik Dugar, are actively involved in the routine operations of the business.

Good brand presence in Kolkata along with association with leading brands

IGJCPL's jewellery collection range from Polki, Kundan Jadau, Antique and Meenakari work in gold jewellery, diamond jewellery, gemstones and is marketed under the name "Indian Gem & Jewellery Creation" which has good brand recall in West Bengal. Besides, IGJCPL uses various modes of promotion – newspapers advertisements, billboards & hoarding, radio advertisements and digital catalogues to promote the brand. IGJCPL is associated with leading brands like Forever Mark and Platinum Priority. The company operates exclusive brand store of 'Forever Mark' in City Centre -I Mall and South City mall.

Long term association with contractual kaarigars along with a dedicated in-house designing team and wide range of product offerings

IGJCPL has an in-house design development department wherein the company develops specialty designs according to the latest market trends and customer preferences. Manufacturing activity is outsourced to local kaarigars in and around Kolkata who are primarily engaged in catering to IGJCPL's jewellery demand. IGJCPL's long term association with most of the kaarigars mitigates the risk of availability of contractual manpower required for meeting gold jewellery demand.

Industry Prospect

In the coming years, growth in gems and jewellery sector would largely be contributed by the development of large retailers/brands. Established brands are guiding the organised market and are opening opportunities to grow. Increasing penetration of organised players provides variety in terms of products and designs. Online sales are expected to account for 1–2% of the fine jewellery segment by 2021–22. Also, the relaxation of restrictions of gold import is likely to provide a fillip to the industry. The improvement in availability along with the reintroduction of low-cost gold metal loans and likely stabilization of gold prices at lower levels is expected to drive volume growth for jewellers over short to medium term. The demand for jewellery is expected to be significantly supported by the recent positive developments in the industry.

Liquidity: Stretched

During FY21, the cash accruals of the company of Rs.1.17 crore were sufficient to meet repayments of Rs.1.05 crore. However, with availment of COVID related loans the annual repayments are going to be higher going forward, thus weakening the liquidity position. The company has liquidity in the form of free cash and cash equivalent of Rs.2.58 crore as on March 31, 2021. Liquidity is supported by unutilized line of credit of about 15% of limits of 43 crore in the last 12 months. Thus, the company's cash accruals and the above liquidity in the form of unutilized lines and reserves are expected to be sufficient to meet the future debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Short Term Instruments](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

Rating Methodology: Retail

About the Company

Indian Gem & Jewellery Creation Pvt Ltd (IGJCPL) incorporated in November 2006 by Mr. Pramod Dugar is engaged in the retailing and trading of gold, diamond and stone studded jewellery. The promoter was earlier involved in the jewellery business through the entity named Indian Gem & Jewellery Pvt Ltd. However, in 2006 the business of Indian Gem & Jewellery Pvt Ltd (incorporated in 1993) was divided among two brothers. IGJCPL has six showrooms in the prime locations of Kolkata and one each in Bagnan and Howrah, West Bengal.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021 (UA)
Total operating income	105.43	75.07	75.81
PBILDT	7.32	6.39	4.77
PAT	1.38	0.45	0.82
Overall gearing (times)	1.03	1.15	1.07
Interest coverage (times)	1.61	1.30	1.55

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee		-	-	-	6.45	CARE A4+
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	Dec 2026	11.60	CARE BB+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-Bank Guarantee	ST	6.45	CARE A4+	-	1)CARE A4+ (25-Feb-21)	1)CARE A3 (28-Mar-20) 2)CARE A3 (09-Apr-19)	-
2	Fund-based - LT-Cash Credit	LT	35.00	CARE BB+; Stable	-	1)CARE BB+; Stable (25-Feb-21)	1)CARE BBB-; Stable (28-Mar-20) 2)CARE BBB-; Stable (09-Apr-19)	-
3	Fund-based - LT-Term Loan	LT	11.60	CARE BB+; Stable	-	1)CARE BB+; Stable (25-Feb-21)	-	-

* Long Term / Short Term

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 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.

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