Priority Jewels Private Limited

October 06, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	99.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	**99.00 (₹ Ninety-Nine Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Priority Jewels Private Limited (PJPL) factors in the significant growth in revenues on the back of buoyancy in demand resulting into higher cash accruals to pre-covid levels and on a y-o-y basis in FY22 (refers to the period from April 01 to March 31) and also in 5MFY23 (refers to the period from April 01 to August 31). Furthermore, the rating also factors in the improvement in the debt coverage indicators, working capital cycle and satisfactory capital structure.

The rating continues to derive comfort from the experienced promoters with well-established track record in the Gems & Jewellery (G&J) business, having presence across key G&J markets along with having long-standing relationship with well-established and reputed clientele base. Having long standing presence, integrated operations and good distribution network has benefitted PJPL during the year. PJPL has also benefitted from the uptick in demand from the domestic market owing to weddings season and festivals being celebrated like during pre-covid period. Further, CARE believes, domestic demand is expected to sustain and remain robust over the medium term.

The above rating strengths, however, continue to be tempered by low profitability margins, working capital intensive operations, moderate debt coverage indicators, susceptibility of profitability margins to foreign exchange fluctuation, volatility in rough diamond prices while having presence in the highly competitive and fragmented nature of the G&J industry.

Rating Sensitivities

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

- Improvement in profit margins with PBILDT and PAT margin exceeding 6.00% and 2.75% respectively on a sustained basis.
- Gearing ratio to be below 0.50x on sustained basis.
- Improvement in total debt to GCA to below 10.00x on a sustained basis.
- Improvement in operating cycle to below 120 days.

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

- Significantly lower than envisaged turnover and profitability margins leading to significant deterioration in cash accruals.
- Fall in PBILDT margins below 3.75%.
- Deterioration in overall gearing above 1.50x.
- Any debt funded capex/acquisition or any significant increase in working capital utilization.
- Elongation in operating cycle to above 175 days.

Detailed description of the key rating drivers

Key rating strengths

Established long track record and market presence backed by experienced promoters in the Gems & Jewellery industry

PJPL has an established presence in the diamond studded gold and platinum jewellery manufacturing industry for more than half a decade. The operations of the company is presently managed by Mr. Shailesh H. Sangani, Managing Director of PJPL having rich experience of more than three decades in the gems and jewellery business. He is well supported by Mr. Tushar Mehta, Director and co-promoter, Mrs. Manisha Sangani.

Presence across key G&J markets

The company has its presence across major G&J market across various geographies. The company is primarily a diamond studded jewellery player, however exports contributed to around 55% of total sales in FY22 and remaining from within India. Apart from India, Hong Kong, USA and UAE are the key G&J markets, and continues to be the largest export destination for the company.

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

Well established and reputed clientele base
PJPL supplies its diamond studded gold jewellery to various well established and reputed clientele base which includes, Reliance Retail, Kalyan Jewellers, Caratlane Trading Pvt. Ltd. Malabar Gold etc. Besides, the group has long established relationship with its clients ensuring repeat orders from them. The top ten clients of PJPL contribute around 60.05% of its total revenue during FY22 vis-à-vis 65.86% of its total revenues during FY21.

Integrated operations of the group supported with vast distribution network
The operations of the PJPL is well integrated in the field of jewellery manufacturing and marketing as PJPL's operations spans from trading in polished diamonds to diamond studded gold and platinum jewellery manufacturing. PJPL procures gold from various bullion banks and diamonds from the open market. In domestic market, the group sells diamond studded jewellery to various parts of India catering to established reputed jewellers and ecommerce platform Caratlane.

Significant growth in scale of operations
The company's scale of operation reflected growth of 52.45% in the total operating income wherein the same stood at Rs. 402.50 crore in FY22 vis-à-vis Rs. 264.02 crore in FY21. The substantial growth in revenues can be attributable to, post gradual revival of the industry from the COVID-19 pandemic-induced slump period and ease of lockdown impositions. Furthermore, during Q1FY23 (refers to the period April 01, 2022 to June 30, 2022), the company has achieved total sales of Rs. 98.05 crore and around Rs190 crore in 5MFY23 vis a vis around Rs.144 crore in 5MFY22. This has resulted into higher cash accruals for the company. Besides, the tangible networth base of the company also improved and remained at Rs. 95.23 crore as on March 31, 2022 vis-à-vis Rs. 89.97 crore as on March 31, 2021.

Satisfactory capital structure along with improvement in debt coverage indicators
The company has moderate financial risk profile marked by large net worth base, satisfactory debt levels comprising of working capital borrowings, gold loans against SBLC (standby letter of credit) and ECLGS (Emergency Credit Line Guarantee Scheme) loans. The capital structure of the company marked by overall gearing ratio which improved marginally and stood satisfactory at 1.08x as on March 31, 2022 vis-à-vis 1.16x as on March 31, 2021 owing to increase in the net worth base from Rs. 89.97 crore in FY21 to Rs. 95.23 crore in FY22 along with reduction in the debt levels. Besides, the same has improved to 1.00x in Q1FY23. Debt protection metrics viz. Total Debt to GCA improved significantly at 15.86x in FY22 vis-à-vis 30.95x in FY21 on account of lower debt level and significant increase in gross cash accruals resulting from higher net profit. However, the same stood modest. Interest coverage ratio also showed improvement from 1.49x in FY21 to 1.95x in FY22 owing to improvement in operating profitability, thereby remaining satisfactory.

Key rating weaknesses
Low profitability margins
The PBILDT margins of PJPL remained relatively steady at 4.06% in FY22 vis-à-vis 4.61% in FY21; however, it remained lower owing to higher overheads. Besides, during Q1FY23, the PBILDT margin has improved and stood at 4.60%. Despite the decline in PBILDT margin, the PAT margin of PJPL improved and stood at 1.30% in FY22 vis-à-vis 0.77% in FY21 on account of higher PBILDT. The PAT margin has also shown further improvement in Q1FY23, wherein the same stood at 1.46%.

Working capital intensive nature of operations
PJPL's working capital cycle improved significantly and stood at 143 days in FY22 vis-à-vis 211 days in FY21. The operations of PJPL remained working capital intensive marked by funds being utilized towards debtors and inventory. However, the inventory days reduced from 121 days in FY21 to 70 days in FY22. Further, the collection period also improved to 107 days in FY22 from 167 days in FY21. Average working capital utilisation of fund-based facilities of PJPL remained high at 81.66% during past twelve months ending August 2022.

Foreign exchange fluctuation risk
PJPL derived around 55% of its overall revenues from the export sales in FY22. During FY22, the company has registered exports of around Rs. 218.43 crore. The company is a net exporter and out of outstanding receivables of Rs. 76.30 crore as on March 31, 2022, Rs. 63.00 crore is hedged portion by way of entering into forward contracts while, the remaining Rs. 13.30 crore is kept open as the company benefits due to natural hedge i.e. gold metal loan outstanding of Rs. 14.83 crore as on March 31, 2022. However, the same is exposed to volatility due to timing differences thereby making it susceptible to foreign exchange fluctuations. The company had foreign exchange gain of Rs. 5.49 crore during FY22 (PY: Rs. 1.26 crore during FY21).

Susceptibility to volatility in raw material prices
PJPL is not a DTC sight holder. It procures polished diamonds largely from the open market. Besides, the company procures gold from banks through gold metal loan and fixes the purchase price of gold on the date of selling gold which helps to mitigate risk of volatility in gold prices to an extent. Nevertheless, the profit margins for players in the G&J business remain susceptible to volatility in raw material prices.

Intense competition and fragmented nature of the industry

The G&J industry and in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated G&J manufacturers leading to a high level of competition. The export-oriented G&J industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry.

Industry:

India's gems and jewellery exports reached US$ 39.14 billion in 2021-22, a 54.13% rise from the previous year. In April 2022, India's overall gems and jewellery exports were at US$ 3.23 billion. The Government of India is aiming at US$ 70 billion in jewellery export in the next five years (until 2025), up from US$ 35 billion in 2020. 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 stabilisation 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. While the industry had crossed pre-pandemic levels, each segment in the value chain has been facing strong headwinds since the beginning of March 2022 with invasion of Ukraine by Russia on Feb 24, 2022 and US sanctions.

Liquidity: Adequate

The liquidity position remained adequate marked by sufficient cushion in accruals against its repayment obligations. The free cash balance stood moderate at Rs. 5.05 crore as on March 31, 2022. The average utilization of its working capital limits during past 12 months ending July 2022 stood at 81.66%. Further, cash flow from operating activities was positive of Rs. 9.06 crore vis-à-vis positive CFO of Rs. 3.72 crore in FY21. On the other hand, the current ratio stood moderate at 1.66 times while quick ratio stood low at 1.15 times as on March 31, 2022 (vis-à-vis current ratio of 1.54 times and quick ratio of 1.00 times as on March 31, 2021).

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
Cut and Polished Diamonds

About the Company

Incorporated on October 12, 2007, Priority Jewels Private Limited commenced operations on January 16, 2008. The company is jointly promoted by Mr. Shailesh H Sangani, Mrs. Manisha Sangani, and Mr. Tushar Mehta. It is engaged in the manufacturing and selling of diamond studded gold/silver/platinum jewellery. The manufacturing facilities are in the premises of its registered office in MIDC, Andheri (Mumbai). The principal geographical areas in which the group operates are India, Hongkong, Middle East and USA. During FY22, the company derived around 55% from sale of CPD and 45% from sale of diamond studded jewelry. In FY22, the company has derived around 55.05% of revenues from exports and remaining revenue from domestic market.

Brief Financials (₹ crore)	FY21 (A)	FY22 (Prov.)	Q1FY23 (Prov.)
Total operating income	264.02	402.50	98.05
PBILDT	12.18	16.35	4.51
PAT	2.05	5.24	1.43
Overall gearing (times)	1.16	1.08	1.00
Interest coverage (times)	1.49	1.95	1.98

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 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	99.00	CARE BBB; Stable / 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/Non-fund-based-LT/ST	LT/ST*	99.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (30-Dec-21)	1)CARE BBB-; Stable / CARE A3 (19-Mar-21)	1)CARE BBB; Stable / CARE A3+ (31-Mar-20)

*Long term/Short term.

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Penal interest rate	Penal interest for non compliance – 18.75% p.a. or 2% above present applicable rate whichever is higher. Penal interest for irregularity/overdue – 18.75% p.a. or 2% above present applicable rate whichever is higher
B. Non-financial covenants	
1. Stock Audit	The copy of Annual Stock Audit Report should be made available to the bank (in case of consortium/multiple banking)

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	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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