

Gosil Exports Private Limited

March 11, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities	12.50	CARE A4 (A Four)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	12.50 (Rs. Twelve Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gosil Exports Private Limited (GEPL) continue to remain tempered on account of moderate scale of operations albeit growth in revenue with moderate profitability, concentrated customer base and working capital intensive nature of operations. The rating further continues to remain tempered owing to risk associated with raw material prices and foreign exchange fluctuation risk and presence in highly competitive and fragmented gems & jewellery industry. The ratings, however, derive strength from experienced management and established track record of operations with established brand name and comfortable capital structure and moderate debt coverage indicators.

CARE Ratings Ltd. has withdrawn the long term rating assigned to the long term bank facilities of Gosil Exports Private Limited with immediate effect, as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the loan as on date. The client has submitted the loan closure letter from the lender.

Key Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income close to around Rs. 150 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 7.00% and 4.50% respectively on a sustained basis
- Improvement in total debt to GCA to improve and stood below 4.00x on a sustained basis

Negative Factors

- Deterioration in overall gearing to 1.5x with any major debt funded capex putting pressure on profitability and liquidity of the company resulting in stress to meet the debt obligations.
- Significant elongation in working capital cycle resulting into pressure on the liquidity parameters.

Detailed description of Key rating drivers

Key rating Weakness

Moderate scale of operations coupled with moderate profitability

GEPL's scale of operations remained moderate however grew by 10.14% in FY21 marked by total operating income of Rs. 84.08 crore in FY21 vis-à-vis Rs. 76.34 crore in FY20, wherein the growth can be attributable to higher demand and execution of pending orders of FY20. Further, the company has generated revenue of Rs. 100.91 crore in 11MFY22 (refers to period April 2021 to February 2022).

The company's operating profitability, deteriorated and remained moderate marked by PBILDT margin of 3.84% in FY21 vis-à-vis 4.69% in FY20 wherein the deterioration is on account of higher miscellaneous expenses. Further, the PAT margin also deteriorated marginally from 1.58% in FY20 to 1.48% in FY21 in light of deterioration in operating margin.

Working capital intensive nature of operations

The operations of GEPL are working capital intensive in nature with majority of funds blocked in collection and inventory. Faster offtake of inventory reflects improvement in inventory period to 82 days in FY21 from 91 days in FY20. Nevertheless, it stood high as it has to maintain the raw material in stock and wide variety of the finished goods to cater to the customer's demands on time. Collection days also stood on higher side at 88 days in FY21. Led by the same, the operating cycle stood high at 137 days in FY21. Average utilization of working capital bank borrowing stood around 70-80% during past 12 months ended February 2022.

Concentrated customer base

Over the years of its operation in the G&J industry, the promoters of GEPL has developed long-standing & established relationship with various customers.

GEPL has been continuously supplying its finished products to these and many such customers over the years. However, the customer base stood concentrated with top five clients contributing 71.72% of total sales in FY21.

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

Risk associated with raw material prices and foreign exchange fluctuation risk

The basic raw material for GEPL is rough gemstones as well as gold and silver. Hence, the prices of its raw materials, for manufacturing, vary in line with those of international prices of rough gemstones which make GEPL's profitability susceptible to volatility in raw material prices. It mainly sources its raw material of around 97.05% of total raw material purchases from the domestic market and balance by way of import. Further, the company generates 95% of its net sales through exports. Thus, GEPL has natural hedge for part of its exports. However, being a net exporting company with foreign exchange fluctuations, GEPL registered foreign exchange profit of Rs. 0.08 crore in FY21 (against exchange profit of Rs. 1.00 crore in FY20). Furthermore, GEPL does not have any active hedging policy and hence, profitability is vulnerable to foreign exchange rate.

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.

Key Rating Strengths

Experienced management and established track record of operations with established brand name

The company was incorporated in 1996 and has more than two decades of track record of operations in the Gems & Jewellery Industry. Mr. Nitesh Agarwal and Ms. Nupur Agarwal are the directors of GEPL. Mr. Nitesh Agarwal has over a decade of business experience and looks after the overall business activity. Ms. Nupur Agarwal, his wife, has 7 years of business experience and supports the management in key business decisions. Since the company's inception, Mr. Nitesh's father and uncle – Mr. Kailashchandra Agarwal and Mr. Neilkamal Agarwal built up the company from their experience of decades in this industry.

Comfortable capital structure and moderate debt coverage indicators

The capital structure of the company stood comfortable marked by overall gearing of 0.66 times as on March 31, 2021 vis-à-vis 0.67 times as on March 31, 2020. Despite increase in debt level led by availment of Covid-19 support loans, the gearing ratio stood comfortable owing to improved net worth base of Rs. 27.99 crore as on March 31, 2021 vis-à-vis Rs 26.75 crore as on March 31, 2020. However, gearing levels have deteriorated to 0.82x owing to loans availed by the company to support the operations. The debt coverage indicators of the company stood moderate with total debt to GCA of 8.91 times as on March 31, 2021 vis-à-vis 8.73 times as on March 31, 2020 which has deteriorated owing to higher debt level and stagnant cash profits in FY21. Further, it has comfortable interest coverage ratio of 4.39 times in FY21 vis-à-vis 3.12 times in FY20, improved on account of decline in interest cost during the year.

Presence in cluster with ease of availability of raw material and labour coupled with tax benefits availed being located in SEZ

GEPL's manufacturing facility is located in Jaipur which is one of the gems & jewellery cluster in India. Jaipur is the key centre for processing of gemstones and manufacturing of gemstone studded jewellery where around 100 exporters and 1500 subcontractors are located. Being located in the cluster, the company is benefited from the easy availability of coloured gemstones, diamonds and labour. The company meets most of its requirement of coloured gemstones through local markets and a part of it is also purchased from foreign markets. Further, being located in the SEZ, the company avails certain tax benefits in the form of excise duty and income tax benefits and import duty exemption on imported machinery.

Liquidity Analysis: Adequate

GEPL has modest liquidity which is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The unencumbered cash & bank balance was around Rs. 1.28 crore as on March 31, 2021 and Rs 0.50 crore as on February 28, 2022 and free FD of Rs. 3.12 crore as on March 31, 2021. Further its pre-shipment credit and packing credit limits are utilized to the extent of 70% to 80% on an average during the past 12 months ended Feb 28, 2022, thereby reflecting moderate utilization of the working capital limits, thus providing the company liquidity cushion to an extent to meet any sort of exigency. The same is supported by comfortable current ratio of 2.01 times and quick ratio of 1.38 times in FY21.

Further the investment in net working capital as a percentage of total capital employed stood at 61.48% as on March 31, 2021, whereas the net cash flow from operating activities stood positive at Rs. 1.84 crore in FY21 vis-à-vis positive cash flow from operations at Rs. 0.26 crore in FY20.

During the Covid-19 pandemic situation, client has availed WCTL-GECL loan of Rs. 2.90 crore from HDFC Bank having monthly instalment of Rs. 9.12 lakh commenced from August 2021, under GECL scheme.

Analytical approach: Standalone

Applicable criteria:

[Policy on Withdrawal of ratings](#)

[Policy on default recognition](#)

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

[Rating Outlook and Credit Watch](#)

[Financial ratios – Non-Financial Sector](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Rating Methodology – Cut & Polished Diamond \(CPD\) Industry](#)

About the Company

Jaipur-based (Rajasthan) Gosil Exports Private Limited (GEPL) was incorporated in November 1996. GEPL is engaged in the business of manufacturing of gold, silver, diamond and platinum hallmark jewellery. GEPL offers wide range of products that include rings, earrings, pendants, necklaces, bracelets, bangles, colour stones and medallions. The manufacturing unit of the company is located at Sitapura Industrial Area, Jaipur with installed capacity of 8,00,000 pieces per annum (i.e. around 65,000 to 70,000 pieces per month) with actual utilization of approx. 85% to 90% p.a. It mainly exports its product to Germany, USA and Spain with export sales contributed to 95% of the total revenue in FY21, whereas the rest 5% constituted domestic sales. Further, the company imports gem stones from Hong Kong wherein the imports contributed 2.95% of total purchases during FY21 wherein the rest constituted domestic purchases.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	11MFY22 (Prov.)
Total operating income	76.34	84.08	100.91
PBILDT	3.58	3.22	NA
PAT	1.20	1.25	2.50
Overall gearing (times)	0.67	0.66	0.82
Interest coverage (times)	3.12	4.39	NA

A: Audited; Prov.: Provisional; NA: Not Available

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - ST-EPC/PSC	-	-	-	-	6.50	CARE A4
Fund-based - ST-EPC/PSC	-	-	-	-	6.00	CARE A4

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	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB; Stable (18-Mar-21) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (25-Feb-21)	1)CARE BB; Stable (03-Dec-19)	1)CARE BB; Stable (20-Dec-18)
2	Fund-based - ST-EPC/PSC	ST	6.50	CARE A4	-	1)CARE A4 (18-Mar-21) 2)CARE A4; ISSUER NOT COOPERATING* (25-Feb-21)	1)CARE A4 (03-Dec-19)	1)CARE A4 (20-Dec-18)
3	Fund-based - ST-EPC/PSC	ST	6.00	CARE A4	-	1)CARE A4 (18-Mar-21) 2)CARE A4; ISSUER NOT COOPERATING* (25-Feb-21)	1)CARE A4 (03-Dec-19)	1)CARE A4 (20-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 - LT-Term Loan	Simple
2	Fund-based - ST-EPC/PSC	Simple

Annexure 5: Bank Lender Details for this CompanyTo 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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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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