

RMC Gems India Limited

March 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities	38.50 (Reduced from 42.50)	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	38.50 (Rs. Thirty-Eight Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of RMC Gems India Limited (RGIL) takes into account the decline in its profitability during FY21, deterioration in its capital structure and debt coverage indicators along with elongation of its operating cycle. The rating, further, continues to remain constrained on account of 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 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.

Rating Sensitivities

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

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

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

- 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

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with high customer and geographical concentration: During FY21, the TOI marginally increased to Rs.81.03 crore from Rs.80.34 crore in FY20. RGIL generates majority of its net sales from Hong Kong and Thailand with top 5 customers contributing 100% of net sales during FY21 thereby indicating high customer as well as geographical concentration. Further, during 11MFY22, the company has reported net sales of Rs.87.30 crore.

Moderate capital structure and moderately weak debt coverage indicators: The capital structure of the company remained moderate with overall gearing of 1.38 times as on March 31, 2021 vis-à-vis 1.33 times as on March 31, 2020. The same deteriorated on account of increase in unsecured loans and term loan during the year. RGIL's debt coverage indicators have deteriorated and remained weak.

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 with almost full utilization during last 12 months ended February 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 has an elongated operating cycle of 406 days in FY21 (vis-à-vis 455 days in FY20). The collection period elongated to 307 days in FY21 vis-à-vis 253 days in FY20.

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, 2021. Against this, the company had unsecured loans of Rs.35.51 crore from promoter group as on same date. Upon adjusting the exposure to subsidiary from RGIL's net-worth, adjusted overall gearing stood at 3.46 times as on March 31, 2021 (3.43 times as on March 31, 2020). Any further increase in exposure to subsidiary will be a key rating sensitivity.

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 with total procurement constituting around 76.49% in FY21 (83.05% in FY20) while the

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

remaining was 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.

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 semi-precious 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 Rating 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 in profitability margins: PBILDT margin of the company has exhibited fluctuating trend during the past three years ended on March 31, 2021 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 FY21, PBILDT margin of the company decreased and remained moderate at 7.84% in FY21 vis-à-vis 11.98% in FY20. Also, amidst Covid – 19 pandemic the demand was less for the products, leading to lower realizations from customers. Further, PAT margin also declined in line with PBILDT margin to 1.64% in FY21 vis-à-vis 9.78% in FY20. In FY20 the net margin was significantly higher owing to MAT credit entitlement of Rs.4.33 crore.

Liquidity: Stretched - Liquidity position remained stretched marked by lower cushion in cash accruals against the debt repayment obligations of the company. The company has free cash and bank balance of Rs.0.46 crore as on March 31, 2021 vis-à-vis Rs.0.15 crore as on March 31, 2020. Its Packing credit and post shipment credit limits is average utilized at 96.98% and maximum utilized at 99.55% during past twelve months ended February, 2022. Further the net cash flow from operating activities stood negative at Rs.5.23 crore owing to significant increase in receivables during the year (vis-à-vis positive at Rs.28.31 crore in FY20). On the other hand, the current ratio and quick ratio stood low at 1.09 times and 0.75 times respectively as on March 31, 2021 (vis-à-vis 1.06 times and 0.65 times respectively as on March 31, 2020).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Policy on Withdrawal of ratings](#)

[Rating Methodology- Manufacturing Companies](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22
Total operating income	80.34	81.03	87.30
PBILDT	9.63	6.35	8.30
PAT	7.86	1.33	NA
Overall gearing (times)	1.33	1.38	NA
Interest coverage (times)	2.51	2.04	NA

A: Audited

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
Fund-based - ST-EPC/PSC		-	-	-	38.50	CARE A4
Fund-based - ST-Line of Credit		-	-	-	0.00	Withdrawn

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 - ST-EPC/PSC	ST	38.50	CARE A4	-	1)CARE A4+ (01-Feb-21)	1)CARE A4+ (02-Jan-20)	1)CARE A3 (04-Jan-19)
2	Fund-based - ST-Line of Credit	ST	-	-	-	1)CARE A4+ (01-Feb-21)	1)CARE A4+ (02-Jan-20)	1)CARE A3 (04-Jan-19)

* Long Term / Short Term

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

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-EPC/PSC	Simple
2	Fund-based - ST-Line of Credit	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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