Priority Jewels Private Limited

March 19, 2021

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	99.00 (Reduced from 110.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)
Total facilities	99.00 (Rs. Ninety-Nine Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Priority Jewels Private Limited (PJPL) takes into account the impact of the Covid-19 pandemic which has resulted into reduced scale of operations and an increase in operating cycle. The revision also factors in the less than expected improvement in solvency ratios and the likely delay in improvement of the same. Furthermore, the ratings continue to be constrained by working capital intensive nature of operations, fragmented and highly competitive nature of the industry and exposure to volatility in the gold prices.

However, the ratings continue to derive strength from the recognised experience of the promoters in the jewellery business, Priority's demonstrated presence and its long-standing relationship with established and reputed clientele along with its vast distribution network.

Rating Sensitivities

Positive Rating Sensitivities

- *Sustained Improvement of PBILDT margins in jewellery business above 4.50% & PAT margins above 2.00%*
- *Sustained Improvement in overall gearing below 0.75x and Total Debt to Gross Cash Accruals below 6x*
- *Improvement and sustained level of Operating cycle below 120 days*

Negative Rating Sensitivities:

- *Deterioration in overall gearing above 1.50x*
- *Fall in PBILDT margins below 3.00% on a sustained basis*
- *Any debt funded capex/acquisition or any significant increase in working capital utilization*

Detailed description of the key rating drivers

Key Rating Weaknesses

Reduction in scale of operations & increase in operating cycle

PJPL's total operating income and PAT is expected to decline during FY21 compared to previous year. Reduction in sales is due to subdued sales during Q1FY21. In addition to that, company's operating cycle is projected to deteriorate further during FY21. Due to impact of Covid-19 pandemic on demand of jewellery, company may take longer time to recover to pre-covid level.

Less than expected improvement in solvency ratio & likely delay in improvement

During FY21, company's Interest coverage ratio is projected to deteriorate, owing to reduction in PBILDT level. Already being at higher levels, Total debt to GCA is also likely to worsen further as compared to 18.44x during FY20. During FY21, PJPL has availed working capital term loan under Emergency Credit Line Guarantee Scheme (ECLGS).

Working capital intensive operations

The operating cycle of the company though improved continues to remain high at 146 days during FY20 and it is expected to increase further during FY21. Operating cycle is higher mainly on account of higher inventory holding (around 100 days) and collection (around 110 days) days.

Reduction in scale of operation & Low profitability margins

[1]*Complete d/efinitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Operating income of the company is expected to decline during FY21 from Rs. 390.87 cr. during FY20. Moreover, PAT margin is also expected to decline during FY21 (PY 0.79%) Operating profit margin declined during FY20 to 3.80% from 4.45% during FY19.

Susceptibility to volatility in raw material prices

PJPL procures raw material largely from the open market. The company procures gold from banks at spot price, thus exposing its operational performance to volatility in raw material price. The profitability margins of PJPL are susceptible to the prices of rough diamonds, C&P diamonds and gold which are market driven and volatile in nature.

Key Rating Strengths

Experienced and reputed promoters in G&J industry

PJPL has an established presence in the diamond studded & plain gold jewellery manufacturing industry for more than half a decade. Besides, Mr. Shailesh H. Sangani, Managing Director of Priority Jewels Private Limited has a rich experience of more than three decades in the gems and jewellery business. He is well supported by Mr. Tushar Mehta, Director with another co-promoter, Mrs. Manisha Sangani.

Well established and reputed clientele

PJPL supplies its diamond studded gold jewellery and plain gold jewellery to various well established and reputed clientele base which includes TBZ group, Reliance Retail, Kalyan Jewellers, P.C. Jewellers, Joy Alukkas India Ltd., Caratlane Trading Pvt. Ltd., Malabar Gold, PC Chandra Group, Muthoot EXIM Pvt. Ltd., etc. Besides, the group has long established relationship with its clients ensuring repeat orders from them.

Industry Prospects:

Diamond Jewellery industry 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. This is primarily export-oriented and is characterized by working capital intensive operations and thin profitability. Steady demand of diamond and gold jewellery from USA is expected to support the demand for manufacturers in India. The larger integrated players with strong sourcing relationships for raw material, better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy are likely to exhibit more stable credit profiles.

Liquidity: Adequate

The company had cash & bank balance of Rs. 12.20 cr. as on March 31st, 2020. Average of maximum monthly utilization of fund-based bank facilities remained around 90.49% for 12 months ended on February-21, while the non-fund-based utilization remained full. Operating cycle though improved remains higher at around 146 days during FY20. The company has availed additional working capital term loan (partial sanction pending) of around Rs. 14 cr. under ECLGS scheme, which is likely to be repaid in next 5 years having a moratorium of about 1 year. The current cash and bank balance as on January 31st, 2021 remains around Rs. 6.02 cr.

Analytical approach: Standalone

Applicable Criteria

CARE's credit rating process
CARE's policy on Default Recognition
Criteria on assigning Outlook and Credit Watch to Credit Rating
Criteria for Short Term Instruments
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector
Rating Methodology - Manufacturing companies

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, Europe, Middle East and USA.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Income from Operations	362.36	390.87
PBILDT	16.13	14.86
PAT	2.30	3.07
Overall Gearing (times)	1.18	0.88
Interest Coverage (times)	1.49	1.67

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT	99.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (31-Mar-20)	1)CARE BBB; Stable / CARE A3+ (28-Jan-19) 2)CARE BBB; Stable / CARE A3+ (03-Apr-18)	1)CARE BBB-; Stable / CARE A3 (03-May-17)

Annexure 3: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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