Priority Jewels Private Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	99.00	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Priority Jewels Private Limited (PJPL) derives strength from the vast experience of the promoters with well-established track record in diamond studded gold Jewellery business, having presence across key markets, long-standing relationship with reputed customers. The ratings further, derive comfort from satisfactory capital structure of the company. 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 moderate scale of operations with low profitability margins due to competitive nature of the industry, working capital intensive nature of operations, susceptibility of profitability margins to foreign exchange fluctuation risk and volatility in diamond prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in revenue where TOI reaches Rs. 550 crore on a sustained basis.
- 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 improve and stood below 10.00x on a sustained basis.
- Improvement in operating cycle to below 110 days.

Negative factors

- Significantly lower than envisaged turnover and profitability margins leading to significant deterioration in cash accruals.
- 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.

Analytical approach: Standalone

Outlook: Stable

PJPL is expected to benefit over the medium term from the stable industry outlook driven by uptick in demand from the domestic market.

Detailed description of the key rating drivers

Key strengths

Established long track record and market presence backed by experienced promoters in the 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 49.75% of total sales in FY23 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.

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, Caratlane Trading Pvt. Ltd., Malabar Gold etc. Besides, the group has long established relationship with its clients ensuring repeat orders from them. The top 10 clients of PJPL contribute around 67.88% of its total revenue during FY23 vis-à-vis 60.05% of its total revenue during FY22.

Moderate capital structure

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

The company has moderate financial risk profile marked by large net worth position, moderate 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 remained stable at 1.17x as on March 31, 2023 vis-à-vis 1.09x as on March 31, 2022. The debt levels have increased slightly on account of higher gold loan against SBLC availed against 100% cash margin along with higher dependence on unsecured loans from promoters. Adjusted overall gearing shows improvement and stood at 1.04x as on March 31, 2023 which is calculated by netting off margin money from the bank borrowings (amounting to Rs. 12.73 crore).

Key weaknesses

Growth in scale of operation however stood moderate along with moderate profitability

The company posted revenue of Rs. 470.69 crore in FY23 vis-à-vis Rs. 402.66 crore in FY22. The growth in TOI can be attributed to positive sentiments driving the jewellery demand, especially from the domestic market. During Q1FY24 (refers to the period April 01, 2023 to June 30, 2023), the company has achieved total sales of Rs. 89.89 crore with net profit of Rs. 0.65 crore. Besides, in 5MFY24 (refers to period April 01, 2023 to August 31, 2023), the company has achieved sales of Rs. 170.00 crore.
The PBILDT margins of PJPL deteriorated slightly and stood at 3.17% in FY23 vis-à-vis 3.94% in FY22; however, it remained low owing to higher overheads.

Working capital intensive nature of operations

PJPL's working capital cycle improved and stood at 128 days in FY23 vis-à-vis 143 days in FY22. The operations of PJPL remained working capital intensive marked by funds being utilized towards debtors and inventory. However, the inventory days remained stable at 68 days in FY23 vis-à-vis 70 days in FY22. Further the collection period also improved to 91 days in FY23 vis-à-vis 107 days in FY22. Average working capital utilisation of fund-based facilities of PJPL remained moderate at 61.20% during past twelve months ending August 2023. Utilization of non-fund-based facility was around 100% during past 12 months ended on August 2023.

Foreign exchange fluctuation risk

PJPL derived around 50% of its overall revenues from the export sales in FY23. During FY23, the company has registered exports of around Rs. 230.71 crore. The company is a net exporter, and it engages into hedging by way of entering into forward contracts as well as benefits due to natural hedge i.e. gold metal loan, to an extent. 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. 6.57 crore in FY23 vis-à-vis Rs. 5.66 crore during FY22.

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.

Liquidity: Adequate

The liquidity position remained adequate marked by sufficient cushion in accruals against its repayment obligations. The free cash balance stood moderately healthy at Rs. 15.35 crore as on March 31, 2023, vis-à-vis Rs. 8.39 crore as on March 31, 2022. The average utilization of its working capital limits during past 12 months ending August 2023 stood at 61.20% and provides some liquidity backup. Further, cash flow from operating activities was positive of Rs. 12.68 crore in FY23 vis-à-vis Rs. 7.55 crore in FY22. The current ratio stood comfortable at 1.50 times as on March 31, 2023 vis-à-vis 1.67 times as on March 31, 2022 and quick ratio stood at 0.91 times as on March 31, 2023 vis-à-vis 1.12 times as on March 31, 2022.

Applicable criteria

Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios - Non-Financial Sector
Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology – Cut & Polished Diamond (CPD) Industry

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

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 FY23, the company derived around 61% from sale of CPD and 39% from sale of diamond studded jewelry. In FY23, the company derived around 49.75% of revenues from exports and remaining revenue from domestic market.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Prov.)	Q1FY24 (Prov.)
Total operating income	402.66	470.69	89.89
PBILDT	15.87	14.92	3.05
PAT	5.34	4.70	0.65
Overall gearing (times)	1.09	1.17	0.98
Adjusted Overall gearing (times)	-	1.04	-
Interest coverage (times)	1.91	1.79	1.63

A: Audited; Prov.: Provisional; Note: 'the above results are latest financial results available'.

Adjusted gearing ratio is calculated by netting off margin money wherein working capital limit utilized towards gold metal loan is Rs. 13.82 crore which is net of margin money.

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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Not Applicable

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

Lender details: Annexure-5

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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	99.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Oct-22)	1)CARE BBB-; Stable / CARE A3 (30-Dec-21)	1)CARE BBB-; Stable / CARE A3 (19-Mar-21)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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