

Shirpur Gold DMCC

January 10, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	75.00	CARE D	Revised from CARE B; Stable

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating to the long-term bank facility of Shirpur Gold DMCC (SGD) takes into account the delays in debt servicing of its working capital limits.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Establishment of track record of timely servicing of debt obligations
- Improvement in PBILDT margin of more than 2% and PAT margin more than 1% on a sustained basis
- Overall gearing of less than unity on a sustained basis

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of the key rating drivers:

Key weaknesses

Delays in debt servicing: As per the feedback received from the banker via email dated January 08, 2024, the account of SGD has been moved to default category for its Working Capital Demand Loan (WCDL) facility.

Weak credit profile of the parent company, i.e., SGRL: The credit profile of SGRL continue to remain weak with accounts of SGRL being classified as non-performing assets (NPA). The liquidity position of the parent continued to remain stretched. As per latest FY23 audit report there are ongoing delays and defaults.

Moderate gearing level and weak debt protection metrics: The operations of the company being working capital intensive, the reliance on external borrowings, continued stable debt levels, coupled with accretion of profit to net worth, the overall gearing improved to 1.59x as on March 31, 2023 (Prov.) as against 1.80x as on March 31, 2022; albeit continued to remain moderate. Also, the business generates low cash accruals given its limited value addition, thus the debt protection metrics stands weak with total debt to GCA at 15.48x as on March 31, 2023 (PY: 7.76x as on March 31, 2022).

Thin profitability margins: Total operating income (TOI) of the company in AED terms declined by over 5.59% on a YoY basis in FY23. The deterioration in revenue from AED 259.65 crore in FY22 to AED 244.85 crore in FY23, was on account of constrained supply due to market discounts, huge interest rate spike in the global market leading to price fluctuations leading to lower supply from the mining owners. However, led by rupee depreciation the TOI in INR terms increased by 1.36% to Rs.5,352.47 crore in FY23 (Prov.) as against 5,280.40 crore in FY22.

The PBILDT margins slightly deteriorated and remained thin at 0.34% in FY23 (Prov.) as against 0.44% in FY22, owing to limited value addition. Also, PAT margin deteriorated from 0.45% in FY22 to 0.24% in FY23 (Prov.) led by higher interest cost. The interest cost increased from Rs.5.78 crore in FY22 to Rs.10.72 crore in FY23 (Prov.) led by increase in the Libor rate.

Working capital intensive nature of operations: The operation of the company remains working capital intensive, as dore suppliers insist on advance payment or provide credit of upto fifteen days, whereas the company provides credit period of around 25-30 days to its customers. However, the working capital cycle of the company stayed in line albeit a slight moderation at 15 days in FY23 (Prov.) as against 13 days in FY22. However, the overall utilization continued to remain high for past 12 months period ending May 2023. Going forward, the company plans to increase its focus on refining gold and strengthen its procurement of dore by backward integration with operationalisation of acquired mine; however, the mines are not yet operational, and the impact of the acquisition remains to be seen.

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

Susceptibility to changes in government regulations: Any unfavourable revision in the duty structure and regulations can adversely affect SGD's revenue and profitability.

Key strengths

Experienced management: SGD is a part of Essel group, which has its presence in diversified sectors such as television broadcasting, cable distribution, direct-to-home satellite service and digital media amongst others. The company is supported by professionals who have vast experience in the gold business.

Acquisition for gold mine in FY18: SGD acquired 70% shareholding rights of MEAM for gold mines located at Bamako, Mali during FY18. MEAM holds the exploration permit over an area of 23.2 km located at Kangaba, Koulikoro region, Mali, and has obtained Small Scale Mining License from Ministry of Environment. The said acquisition would lead to captive sourcing of raw materials at competitive rates. However, the subsidiary is yet to commence operations and thus the impact of the acquisition remains to be seen. As of Now, the mining license of the entity has been renewed as the same is compulsory to renew it every 4 years. Further, the company is evaluating an option to enter JV Partner with whom they can collaborate and start the operations or for an outright sale as well.

Liquidity: Poor

The liquidity position of the company remains poor characterized by on-going delays in debt servicing of its working capital limits which has been moved to default category as confirmed by one of its lenders.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Rating Methodology – Manufacturing Companies](#)

[Policy on Curing Period](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Shirpur Gold DMCC (SGD; erstwhile Zee Gold DMCC) is a part of Essel group with 100% holding of Shirpur Gold Refinery Limited (SGRL; rated CARE D; Issuer Not Cooperating vide its PR dated July 18, 2022). SGD commenced its commercial activities from January 05, 2016. SGD is broker member of Dubai Gold & Commodities Exchange. The company is engaged in processing (Outsourced) and trading of gold bars from gold dore. SGD procures raw material (dore) from Latin America and sells largely in Dubai market. SGD has tie up with mining companies from gold producing countries in Latin America, Australia, Africa etc. to ensure proper and regular supply of gold dore. Post procurement, refining is done through Dubai Good Delivery refiners like Al Etihad Gold Refinery DMCC, Dubai. After getting the refined bars of 99.5% purity the same are sold to bullion banks like Standard Bank of London, RAK Bank Dubai and other wholesale traders in Dubai. SGD acquired 70% stake in Metalli Exploration and Mining (MEAM) in Mali, Bodoko in FY2018. This company is yet to commence operations. As of Now, the mining license of the entity has been renewed as the same is compulsory to renew it every 4 years. Further, the company is evaluating an option to enter JV Partner with whom they can collaborate and start the operations or for an outright sale as well.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	216.15	259.35	244.85
PBILDT	0.49	1.15	0.84
PAT	0.64	1.18	0.58
Overall gearing (times)	2.37	1.80	1.59
Interest coverage (times)	1.47	4.05	1.72

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facility	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 - LT-Working Capital Demand loan		-	-	-	75.00	CARE D

Annexure-2: Rating history for the last three years

Sr. No.	Name of the 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 - LT-Working Capital Demand loan	LT	75.00	CARE D	1)CARE B; Stable (04-Jul-23)	1)CARE B; Stable (28-Jun-22)	1)CARE B; Stable (16-Jun-21)	1)CARE D (13-Oct-20) 2)CARE D (15-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of the various facilities rated

Sr. No.	Name of the Facility	Complexity Level
1	Fund-based - LT-Working Capital Demand loan	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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Akhil Goyal Director CARE Ratings Limited Phone: 022- 6754 3590 E-mail: akhil.goyal@careedge.in</p> <p>Manohar S Annappanavar Associate Director CARE Ratings Limited Phone: 91 22 6754 3436 E-mail: manohar.annappanavar@careedge.in</p> <p>Abhijeet Dhakane Analyst CARE Ratings Limited E-mail: Abhijeet.Dhakane@careedge.in</p>
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About us:

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