

Sonam Limited

September 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.37	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	19.63	CARE BBB-; Stable / CARE A3	Assigned
Short Term Bank Facilities	2.00	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sonam Limited (Sonam) derive strengths from experienced promoters with long track record of operations in wall clock industry, established customer and supplier base, comfortable capital structure and healthy debt coverage indicators.

The ratings, however, constrained due to its moderate scale of operations and profitability, susceptibility of its profitability to volatility in raw material prices and foreign currency fluctuation risk, presence in highly competitive industry and large working capital requirement for its business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income (TOI) above Rs.150.00 crore along with PBILDT margin over 12% on sustained basis.
- Improvement in liquidity with improvement in operating cycle below 90 days on sustained basis

Negative factors

- Decline in scale of operations with TOI below Rs.75 crores and PBILDT margin below 8% on sustained basis.
- Any debt funded leading to overall gearing above 1.50x
- Elongation in operating cycle above 150 days

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of Sonam is "Stable" considering extensive experience of the promoter in the wall clock manufacturing industry. CARE Ratings Limited (CARE Ratings), expects Sonam to maintain comfortable financial risk profile, supported by moderate cash accruals and low debt levels.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long track record of operations

Sonam has been operating in the clock manufacturing industry for more than three decades. Company is promoted by Jayeshbhai Shah, having extensive experience in the wall clock industry. He is supported by his son, Harshil Shah, and other family members in the operations of the company. Promoters are ably supported by the experienced management team in the functioning of the company. The manufacturing facility of Sonam is located in Morbi, Gujarat which is one of the major clock manufacturing hubs in India thus benefitting it in terms of easy availability of raw materials and labour. Company has established presence in the domestic as well as export market. In export markets, it majorly caters to middle east countries, Dubai, Qatar, Iraq etc. The promoters' comprehensive experience has provided them with insights into market dynamics, facilitating the development of strong networks with both suppliers and customers.

Comfortable capital structure and healthy debt coverage indicators

The capital structure of Sonam remained comfortable marked by overall gearing of 0.50x as on March 31, 2024 (P.Y.: 0.67x). While net worth bases remain moderate at Rs.44.19 crore, total debt level remained low at Rs.22.16 crore as on March 31, 2024. With the low debt level and moderate profitability, debt coverage indicators remained healthy marked by PBILDT interest coverage of 4.24x and total debt to gross cash accruals (TDGCA) of 2.70 years in FY24 (P.Y.: 3.75x and 4.29 years respectively). Going forward, with no debt-funded capex planned in near term to medium term, CARE Ratings expects capital structure of Sonam to remain comfortable in line with the present level.

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

Key weaknesses

Moderate scale of operations and profitability

Over the past five years ended FY24, Sonam's scale of operations grew at a moderate compounded annual growth rate (CAGR) of around 8% and stood at Rs.87.64 crore (FY23: Rs.83.03 crore). The growth was driven by increase in both, sales volume and sales realisation. Sonam derives nearly 35-40% clock sale, 25-30% from clock movements while remaining from the trading activity.

Sonam's operating profitability remained moderate in the range of 10-14% over the past 5 years ended FY24. During FY24, PBILDT margin improved by 265 bps to 13.84% as against 11.19% in FY23 mainly owing to better spread and better trading margins. With increase in PBILDT and moderate depreciation and interest cost, profit after tax (PAT) margin also improved by 147 bps from 4.82% in FY23 to 6.29% in FY24. GCA remained moderate at Rs.8.22 crore during F24 (FY23: Rs.6.01 crore). Further, Sonam reported TOI of Rs.22.67 crore with PBILDT margin of 11.42% during Q1FY25.

Susceptibility of profitability to volatility in raw material prices and foreign currency fluctuation risk along with competitive industry landscape

Sonam's key material includes plastic granules, glass and time movement parts etc. and prices of which being commodity in nature are volatile exposing its profitability to volatile prices. Further, Sonam imports plastic granules, glass as well as parts of time movement which together forms around 50% of its total raw material consumption in FY24 (FY23: 58%).

Sonam's exports sales (clock and clock movements) forms 25% of net sales in FY24 (FY23: 24%). However, Sonam is a net importer and with no active hedging policy in place, its profitability is exposed to the foreign exchange fluctuation risk.

The wall clock market is highly fragmented with the presence of few large integrated players and large number of mid-sized companies. Also, with the advent of the new technologies, consumer preferences remain evolving. Sonam faces competition from the various domestic players as well as from cheaper imports.

Large working capital requirement for its business

Sonam's operations are working capital intensive as marked by gross current asset (GCA) days of 140-200 over the past 5 years ended FY24. GCA days remains high since Sonam gives credit of on an average 60 days to domestic customers and 45-90 days to existing export customers while it receives limited credit period. Sonam needs to maintain sufficient inventory level for uninterrupted operations considering its import dependency for some of its parts. Average inventory days were 87 days in FY24 (FY23: 113 days). Its operating cycle remained elongated at 115 days in FY24; albeit it improved from 121 days in FY23.

Liquidity: Adequate

Liquidity of Sonam remained adequate marked by moderate cash accruals against low repayment obligations. It is expected to generate GCA of around Rs.6 crore against debt repayment of around Rs.2 crore in FY25. Average fund based working capital utilisation remained moderate at 87% for the past 12 months ended May 2024. Cash flow from operation (CFO) remained positive albeit moderate at Rs.6.87 crore in FY24 (FY23: Rs.7.89 crore). Current ratio remained moderate at 1.58x as on March 31, 2024. Company has cash and bank balance of Rs.0.15 crore as on March 31, 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Household Appliances

Promoted by Jayesh Shah & family in 2001, Sonam Limited (Sonam; CIN: L33302GJ2001PLC039689) is engaged in the manufacturing of wall clocks, alarm clocks and clock movements at its manufacturing facility in Morbi, Gujarat. It has installed capacity of 60 lacs clocks, 135 lacs clock movements and 4.5 lacs time pieces as on March 31, 2024. It also undertakes trading of granules, glass, clock movement parts etc.

It got listed on 'NSE emerge platform' in 2018 and later in 2022 was migrated to NSE main board. Sonam was initially incorporated as a private limited company by the name of 'Sonam Clock Private Limited'. Its name was changed to present one in September 2023. Sonam is ISO 9001:2008 accredited company.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Ab)	Q1FY25 (UA)
Total operating income	83.03	87.64	22.67
PBILDT	9.29	12.13	2.59
PAT	4.00	5.52	1.17
Overall gearing (times)	0.67	0.50	NA
Interest coverage (times)	3.75	4.24	4.89

A: Audited Ab: Abridged; UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL has placed the ratings assigned to the bank facilities of Sonam under Issuer not co-operating category vide press release dated July 25, 2024 due to non-availability of the information.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31/01/2027	5.37	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	2.00	CARE A3
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	19.63	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	5.37	CARE BBB-; Stable	-	-	-	-
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	19.63	CARE BBB-; Stable / CARE A3	-	-	-	-
3	Fund-based - ST-EPC/PSC	ST	2.00	CARE A3	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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