Vaibhav Global Limited

September 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	110.00 (Enhanced from 105.00)	CARE A+; Stable / CARE A1	LT rating upgraded from CARE A; Stable and ST rating reaffirmed
Long Term Bank Facilities	-	-	Withdrawn*
Short Term Bank Facilities	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.
* CARE Ratings Limited has withdrawn the rating assigned to the bank facility from State Bank of India and Punjab National Bank as the same has been extinguished on the basis of the latest available sanction letter.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) take into account sustained growth in its scale of operations & improvement in profitability supported by stabilisation of recent acquisitions along with scaling up of operations in the newly added geographies (such as Germany) in FY24 (refers to the period of April 01 to March 31). The ratings continue to derive strength from the vast experience of its promoters in the manufacturing of gemstone-studded fashion jewellery & e-retail segment, its end-to-end vertically integrated operations, comfortable capital structure and strong liquidity.
The ratings, however, continue to remain constrained by geographical concentration of its revenue (mainly dependent on USA and UK markets) and susceptibility of its scale of operations to economic slowdown, local regulations and intense competition. The ratings strengths also continue to be partially offset by working capital intensity of its operations due to high inventory holding, susceptibility of its profitability to volatility in exchange rate as well as raw material prices and the risk of bad debt/write-off on budget pay (EMI scheme) sales.
CARE Ratings Limited has withdrawn the rating assigned to the bank facility from State Bank of India and Punjab National Bank as the same has been extinguished on the basis of the latest available sanction letter.

Rating sensitivities: Factors likely to lead to rating actions
Positive factors

- Increase in total operating income (TOI) to more than Rs.5000 crore through greater geographical diversification of its revenue with improvement in its operating profitability (PBILDT) margins on a sustained basis.
- Sustaining the comfortable capital structure and debt coverage indicators at current levels

Negative factors

- Decline in TOI below Rs.2500 crore along with reduction in PBILDT margin below existing levels on a sustained basis
- Any major debt funded capex resulting into deterioration in capital structure with overall gearing moderating beyond 0.25 times.
- Significant increase in receivable/inventory level or bad debts affecting cash flows and profitability
- Any regulatory changes or slowdown in key markets (USA, UK & Germany) impacting the business of the company at consolidated level

Analytical approach: Consolidated. The company has operational synergies with its subsidiaries and hence consolidated approach has been considered. List of subsidiaries and step-down subsidiaries has been attached as **Annexure- 6**

Outlook: Stable
The Stable outlook on the rating reflects CARE Ratings' expectation that VGPL will benefit from its experienced promoter group, established presence in the markets of USA and UK along with stabilisation of operations in Germany, and its comfortable financial risk profile.

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

Description of key rating drivers:

Key strengths

Experienced promoter group

Mr Sunil Agrawal, Managing Director & Promoter, has around four decades of experience in the gems and jewellery business. He is supported by a team of functional professionals and independent directors, who have vast experience in e-commerce and retail, finance, merchandising, etc. Under their leadership, the group has demonstrated a track record of growth in e-retail of jewellery as well as lifestyle products.

Vertically integrated business model with established presence in USA & UK

Owned manufacturing facilities in India for jewellery and strong sourcing arrangements in over 30 countries through wholly owned subsidiaries (WOS) in China, Hong Kong, and Indonesia, amongst others results in integrated operations and has helped VGL to reduce delivery times. Furthermore, marketing of products through proprietary channels and increasing presence on web platforms, online marketplaces and social commerce platforms have helped VGL to improve its presence in the e-retail market. Under the retail division, VGL reported TV coverage of around 130 million households (141 million households in FY24) on full time equivalent (FTE) basis in UK and US with around 6 lakh unique customers and 4.20 lakh new customer registrations in FY24. VGL has achieved CSAT (Customer Satisfaction score) of 96% in both UK and USA market and 97% in Germany market. VGL has three proprietary TV sales platforms, i.e. Shop LC in the USA, Shop TJC in the UK and Shop LC Gmbh in the Germany (which contributes major part of the total revenue) out of which television revenue accounts for nearly 61% of its TOI for FY24, while the balance is contributed by web platforms.

Sustained growth in scale of operations and improvement in profitability

During FY24, VGL reported y-o-y growth of 13% in its TOI to Rs.3050.35 crore in FY24 (PY: Rs. 2703.48 crore). The growth was on account of recovery in global economy characterized by the decrease in inflation rates and an increased spend on discretionary products, along with scale up of operations in Germany.
While USA (the largest market) and UK registered a moderate y-o-y growth of 4% and 13% respectively in TOI in FY24, Germany registered sizeable growth of 59%.
The revenue mix of the company comprises of contribution of jewellery and non-jewellery portfolio of 70% and 30% respectively in FY24 (PY: 73% and 27%).
Revenue from B2C segment continued to contribute 96% of the TOI, while the balance 4% of the revenue was from B2B segment.
The PBILDT margin of VGL improved by 139 bps to 10.19% (PY: 8.80%) in FY24 on account of benefit of operating leverage and cost optimization strategies. These measures have offset the 21% increase in broadcasting expenses, while also capitalizing on improvement in sales realization from TV and Web sales. Consequently, the PAT margin improved by 27 bps to 4.15% in FY24 (PY: 3.89%) despite an increase in finance cost and depreciation cost by 43% and 20%, respectively.
At a consolidated level, VGL reported y-o-y growth of 22% in gross cash accruals (GCA) to Rs.218.51 crore in FY24 (PY: Rs. 192.15 crore).
As per the provisional financials for Q1FY25 (refers to the period April 01 to June 30), VGL reported y-o-y growth of 15% in its TOI to Rs. 746.62 crore (PY: Rs. 665.67 crore) on account of positive consumer sentiments towards retail sales. However, the PBILDT and PAT margin of VGL largely remained stable at 8.59% and 3.59% respectively (Q1FY24:9.84% and 4.44%) in Q1FY25 on account of an increase in airtime cost, incurred to further strengthen company's market presence.
CARE Ratings expects the TOI growth of 10% to 12% in the projected period on account of the revival in global economies, softening of interest rates resulting in increased spend on discretionary products. Going forward, with the rationalization of benefits of automation and other infrastructure cost incurred over the period of three years ended FY24, the operating margin of VGL is also expected to improve in the medium term.

Scaling up of Germany operations and market penetration with successful acquisitions

VGL, through its wholly owned subsidiary (WOS), Shop TJC Ltd (UK), had made two acquisitions, viz. Ideal World (IW) (having prominent presence in UK) and Mindul Souls BV (MSB) (having presence in USA, UK/EU, Canada, and Australia) in FY24. These acquisitions resulted in a notable diversification of VGL's offerings and market, resulting in an increase in its scale of operations and profitability.
During FY24, with only three months of operations, IW reported a revenue of approximately Rs. 56.74 crore, while MSB reported a revenue of around Rs. 75.34 crore. Additionally, IW is currently profitable on a direct cost basis and is expected to achieve full cost profitability by the H2FY25. Meanwhile, MSB generated healthy profit margins in FY24.

Further, within three years of operations, the revenue from Germany market has also scaled up depicting y-o-y growth of 59% to Rs.191.93 crore in FY24 (PY: Rs. 120.50 crore) which has positively contributed towards the scaling up of operations in FY24. Achievement of breakeven from Germany operations in H2FY25, as articulated by the management, will be a key rating monitorable.

Comfortable capital structure and debt coverage indicators

A healthy net worth base supported by strong cash accruals and lower debt levels resulted in a low overall gearing at 0.20 times as on March 31, 2024 (P.Y. end 0.19 times). The debt coverage indicators stood comfortable marked by PBILDT interest coverage and total debt to GCA of 26.53 times (PY:29.02 times) and 1 year (PY: 1.08 year) respectively as on March 31, 2024. The total outside liabilities to net-worth stands healthy at 0.57 times (PY: 0.57 times). VGL's total debt to PBILDT remained comfortable at 0.70 times in FY24 (FY23: 0.81 times).

Key weaknesses

High geographical concentration with susceptibility of demand to economic slowdown in key markets

VGL generates majority of its revenues and profits from its subsidiaries in USA and UK. Considering demand of jewellery and lifestyle products is largely discretionary in nature, retail demand for the products and in turn VGL's business prospects is directly linked with economic scenario in its key consumer markets. However, CARE Ratings expects Germany operations to further scale up in the near term, providing necessary diversification to its revenue stream and contribute to VGL's profitability.

Susceptibility of profit margin to exchange rate fluctuation and raw material prices

Being a 100% Export Oriented Unit, VGL's profitability is susceptible to exchange rate movements. While the risk on unhedged net receivables is mitigated to a certain extent by availing working capital borrowings in foreign currencies, the group's profitability remains susceptible to timing differences.
Moreover, VGL's profitability is also vulnerable to high volatility in the prices of key raw materials for VGL's gems and jewellery products (gemstones, gold and silver).

Intense competition with operations susceptible to strict laws and regulations

VGL's operations in USA, UK and Germany are subject to strict laws and regulations applicable to television and e-commerce business. Moreover, e-commerce retail business is highly competitive and VGL faces direct competition from other established television shopping and ecommerce retailers, traditional brick and mortar stores, discount stores, warehouse stores and speciality stores, catalogue and mail order retailers in USA and UK market. VGL would need to continuously improve, upgrade, adapt and expand technology systems and infrastructure to offer value to its customers with enhanced customer experience in a cost efficient and competitive manner.

Risk of bad debts

A sizeable portion of VGL's revenue is contributed by budget pay EMI scheme, which exposes the company to risks associated with non-receipt of payments from customers. During FY24, VGL's budget pay EMI scheme remained stable and constituted around 39% of total B2C sales (PY: 39%). This scheme (with product return option) allows the customers to pay in interest-free monthly instalments (maximum six instalments, with the first instalment being paid upfront). While total bad debts (including b2b business bad debts) written off/provision for bad debts remains low in F24, any increase in bad debts or receivable levels can adversely impact the profitability and liquidity of the company; consequently, the same remains crucial from credit perspective.

High inventory holding

As VGL's business model (on consolidated basis) is largely B2C sales model, the company needs to maintain optimum inventory level of around three months, which exposes the company to risks of obsoletion/ lower profitability, VGL liquidates its slow-moving inventory through rising auctions and clearance sales at a frequent interval.
Moreover, increase in scale of operations, expansion of product portfolio and a higher lead time has resulted in increase in VGL's inventory levels in last few years, though the same is expected to gradually rationalise to an extent with Germany scaling up. This results in a moderate operating cycle, which stood stable at 92 days in FY24 (FY23: 96 days).
VGL's receivables level usually remains low since majority of its retail sales are on cash basis. Current ratio and quick ratio stood around 2.25 times and 1.11 times as on March 31, 2024 (PY:2.27 times and 1.04 times) respectively.

Liquidity: Strong
VGL has strong liquidity characterized by sufficient cushion in its cash accruals vis-à-vis its negligible term debt repayment obligations, stable operating cycle and healthy free cash & bank balance (including investments) of Rs.194.87 crore as on March 31, 2024 (PY: Rs.230.67 crore as on March 31, 2023).
VGL has sanctioned fund-based limit of ₹113 crore (on a standalone basis) and its utilisation remained moderate at 72% during the trailing 12-months ended June 30, 2024. Further, during FY24, VGL funded its entire capex and acquisitions through internal accruals as well as available free cash and bank balance. VGL generated healthy cash flow from operations of Rs. 240.82 crore (PY: Rs. 192.14 crore).
Going forward, VGL is expected to generate GCA of around ₹300-490 crore which is sufficient to meet any capex requirement, repayment obligations and any incremental working capital requirement.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

Particulars	Compliance and action taken by the company
Environmental	1. SEZ Unit at Jaipur is the only manufacturing unit with LEED Platinum certification by USGBC. and , the 16th building in the country to receive 'NetZero Energy' certification from IGBC. 2. 100% renewable energy in both the manufacturing units in India and one premise each in UK & USA 3. Effluent water treatment plant set up for water recycling with ~106 KL recycled every year. 4. 2,800 Kg Electric Waste and 1,800 Kg Plastic Waste disposed till date through government approved recyclers 5. The electric vehicle strength has increased to 184 Two-Wheelers and 3 Electric cars and with these 70 tonnes of carbon emissions is expected to be avoided with deployment.
Social	1. 56,000 meals provided under "Your Purchase Feed" every single day (87 million provided till date). 2. Women employees constitutes 58% of the total workforce globally. 3. 33 micro enterprises created across the group. 4. Certified as Great Place to Work in all locations (except Germany).
Governance	1. Conferred with Great Place To Work certification for the 6th consecutive year. Also, certified as 'Top 50 Best Manufacturing Workplaces in India 2023' by 'Great Place To Work'. 2. Conferred with the Indian Gems and Jewellery Award (IGJA) award for being the Highest Exporter of cut and polished coloured gemstones from India by The Gem & Jewellery Export Promotion Council (GJEPC) 3. The dividend payout for FY24 stands at 78% of its net income 4. Received Certificate of Recognition for CSR Excellence from the Institute of Company Secretaries in India 5. Conferred with 'India Risk Management Award' in Manufacturing Sector by ICICI Lombard and CNBC-TV18 The company maintains a non-negotiable stand on value transgressions based on the Grievance Redressal Policy for Employees, HR Escalation Matrix, and the presence of a strong grievance, redressal body. The business partners, acknowledge and comply with the, Supplier Code of Conduct, which upholds the Anti Bribery Policy.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments
Consolidation
Retail

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

Incorporated on May 08, 1989, VGL is a 100% Export Oriented Unit (EOU) having manufacturing set-up for gemstone studded jewellery at Sitapura, Jaipur along with diamond sourcing and manufacturing unit at Mumbai. VGL manufactures low-cost gemstone studded jewellery primarily made of silver and other metals. VGL also sells fashion accessories, lifestyle products and textile and home décor products sourced from various micro markets including India, China, Thailand and Indonesia. VGL retails the products through two proprietary 24 hour TV channels [Shop LC in USA & Canada and The Jewellery Channel (TJC) in UK] on all the major cable, satellite and DTH platforms. Furthermore, VGL operates e-commerce websites in US (www.shoplc.com) UK (www.tjc.co.uk) and Germany (www.shoplc.de) and mobile applications, which complements VGL's TV coverage, while diversifying customer engagement.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2703.48	3050.35	764.62
PBILDT	237.91	310.81	65.70
PAT	105.14	126.74	27.45
Overall gearing (times)	0.19	0.20	NA
Interest coverage (times)	29.02	26.53	31.81

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

Status of non-cooperation with previous CRA: Not Applicable

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-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	110.00	CARE A+; Stable / CARE A1
Non-fund-based - ST-Forward Contract		-	-	-	0.00	Withdrawn

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

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	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (02-Sep-22)	1)CARE A1 (27-Jul-21)
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	110.00	CARE A+; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (09-Oct-23)	1)CARE A; Stable / CARE A1 (02-Sep-22)	1)CARE A; Stable / CARE A1 (27-Jul-21)
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (02-Sep-22)	1)CARE A1 (27-Jul-21)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A1 (09-Oct-23)	-	-
5	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Stable (09-Oct-23)	-	-

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-Cash Credit	Simple
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation (As on March 31, 2024)	Rationale for consolidation
1	VGL Retail Ventures Limited, Mauritius	100%	100% controlled entity; operational and managerial linkages
2	STS Global Limited, Thailand	100%	
3	STS Global Limited, Japan	100%	
4	STS Global Supply Limited, Hong Kong	100%	
5	STS Global Limited, Thailand	100%	
6	STS Jewels Inc., USA	100%	
7	Vaibhav Vistar Limited, India	100%	
8	Vaibhav Lifestyle Limited, India	100%	
9	Encase Packaging Private limited, India	60%	
10	Shop LC GmbH, Germany	100%	
11	Shop TJC Limited, UK	100% subsidiary of VGL Retail Ventures Limited (Erstwhile, Genoa Jewellers Limited)	Step-down subsidiaries, Operational and managerial linkages
12	Shop LC Global Inc., USA	100% subsidiary of Shop TJC Limited, UK	
13	Pt. STS Bali, Indonesia	100% subsidiary of STS Jewels Inc. USA	
14	STS (Guangzhou) Trading Limited	100% subsidiary of STS Jewels Inc. USA	
15	The Mindful Souls BV, Netherlands	100% subsidiary of STS Jewels Inc. USA	

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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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