Sky Gold Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	450.00 (Enhanced from 250.00)	CARE BBB; Positive / CARE A3+	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings and revision in outlook reflects the improvement in performance of Sky Gold Limited (SGL) in FY24 and Q1FY25 and CARE Ratings Limited's (CARE Ratings') expectations of steady performance in the coming years on the back of improving capacity utilisation and growing realisations driven by the increasing demand for gold jewellery in India. SGL's income grew by ~50% y-o-y to ₹1,745 crore in FY24 supported by ~33% YoY rise in sales volumes, aided by onboarding of new customers and increase in wallet share of existing customers, and 15% YoY improvement in blended realisations considering rising gold prices. Its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin expanded by 120 bps y-o-y to 4.50% in FY24 on the back of a favourable product mix and better absorption of fixed costs. The trend continued in Q1FY25 with SGL recording a steep 92% YoY growth in revenue to ₹723 crore (Q1FY24: ₹376 crore) and operating margins at 5%. While reaffirming ratings, CARE Ratings also notes the acquisition of 100% equity stake in Starmangalsutra LLP and Sparkling Chains LLP by SGL, funded through a preferential issue of shares to the promoters, which is likely to be completed in FY25. The acquisition is expected to lead to addition of new product categories, new customers, and incremental capacity aiding the medium-term revenue growth of the company. SGL's financial risk profile continues to remain adequate marked by overall gearing of 1.35x and total outside liabilities to tangible net worth (TOL/TNW) of 1.39x as on March 31, 2024 and interest cover of more than 3.5x in FY24. SGL's net worth base grew substantially to ₹244 crore as on March 31, 2024, aided by healthy accruals from operations and raising of fresh equity of ₹108 crore by way of preferential allotment.

Ratings continue to factor in the long experience of SGL's promoters in the jewellery manufacturing industry. However, ratings are constrained by customer concentration risk and presence in highly competitive and fragmented jewellery business. Ratings are tempered considering negative cashflow from operations at ₹159 crore in FY24 resulting into high utilisation of working capital borrowings of more than 90% for past 12 months ending June 2024. CARE Ratings expects SGL's credit metrics to continue remaining moderate over the medium term, as the company is expected to avail additional working capital borrowings to fund its growing scale of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in scale of operations with sustenance of PBILDT margin translating into healthy cashflow from operations.

Negative factors

- Increase in overall gearing above 1.5x on a sustained basis.
- Company's deteriorating liquidity profile owing to significantly increasing receivables or inventory levels.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for SGL's projected financials while arriving at ratings based on recent acquisition of 100% equity stake in Starmangalsutra LLP and Sparkling Chains LLP, which is likely to be completed in Q3FY25. Both subsidiaries operate in the same industry as that of SGL and will have substantial managerial, operational, and financial linkages from FY25 onwards. Subsidiaries considered for consolidation are listed in Annexure-6.

Outlook: Positive

The positive outlook reflects CARE Ratings view that SGL's operations are expected to stabilise backed by capacity expansion and recent acquisitions coupled with planned fund raising which is likely to benefit the financial risk profile and improve the cashflows from operations.

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

Detailed description of key rating drivers:

Key strengths

Improvement in scale of operations in FY24; likely to sustain in medium term

SGL's topline improved from ₹1,155 crore in FY23 to ₹1,746.23 crore in FY24 on the back of ~33% YoY growth in sales volumes, led by addition of new customers and increase in wallet share of existing customers, and ~15% YoY growth in realisations. SGL's major customers are key retailers in trading gold jewellery, who are aggressively expanding their business by opening new outlets. Additionally, the revenue share from exports is increasing gradually from less than 5% in FY22 to 11% in FY24. Profitability margins expanded by 120 bps considering sale of unique design products manufactured at their recently installed state-of-the-art infrastructure in Navi Mumbai. However, margins remain constrained due to the low value-added nature of gold jewellery manufacturing. In FY24, the PBILDT margin stood at 4.49% against 3.20% in FY23. In Q1FY25, SGL has achieved sales worth ₹723 crore as against ₹376 crore in Q1FY24. Operating margins continue to remain at around 5% for Q1FY25. CARE Ratings expects SGL's scale of operation to improve further in FY25, which will be supported by installed capacity available to meet the ongoing demand and addition of revenue share from its subsidiaries.

Adequate financial risk profile

SGL's net worth base improved significantly to ₹244.06 crore in FY24 against ₹98.07 crore in FY23 considering fund infusion through preferential issue worth ₹108 crore and promoter infusion worth ₹20 crore, which were utilised towards funding of working capital requirements. The working capital borrowings stood high at ₹274 crore in FY24 (PY: ₹128 crore). Hence, overall gearing continues to remain at 1.35x in FY24 (PY: 1.49x). In Q2FY25, SGL's board has approved raising of additional equity of ₹270 crore through public/private placement, which could support its capital structure. SGL's debt coverage indicators are comfortable with total debt/PBILDT at 4.21x (PY: 3.97x) and interest coverage ratio at 3.51x for FY24. CARE Ratings observes, going forward, equity infusion for SGL will be crucial to support the growing business and reduction in dependence on banks post which the capital structure and credit metrics may improve.

Experienced promoters

The company's promoters, Mangesh Chauhan, Mahendra Chauhan, and Darshan Chauhan, have more than a decade of experience in the domestic jewellery industry. The promoters are actively involved in the company's strategic decisions and their experience is expected to benefit the company to form long-standing relationships with key suppliers and customers.

Key weaknesses

Substantial incremental working capital requirements constrain cash flow from operations

While SGL's operating cycle remains comfortable at 45-55 days with average collection period of 15-20 days and average inventory of 30-40 days in the last two years, the steep rise in SGL's scale of operations in FY24 translated into substantial incremental working capital requirements of more than ₹220 crore against which, the company's gross cash accrual (GCA) stood at ~₹46 crore. Expecting continued growth over the near to medium term, SGL's incremental working capital requirements are projected to remain sizeable compared to its business accruals. Resultantly, the company will depend on external borrowings or additional equity to meet the requirements. CARE Ratings notes that SGL's sanctioned working capital limits increased by ~₹150 crore in the last 12 months and the company raised ~₹108 crore of fresh equity through preferential allotment. Nevertheless, its average limit utilisation remained high at ~92% in the 12 months ending June 2024. SGL's ability to meet its funding requirements from external sources in the light of limited business accruals remains a key rating consideration.

Customer concentration risk; partly mitigated by relations with reputed clientele

SGL has long-standing relationship with its customers which benefits the company through receipt of repeated orders. The clientele comprises reputed gold jewellery retailers such as Malabar Gold Pvt Ltd, Joyalukkas India Pvt Ltd, Kalyan Jewellers India Limited, among others. However, top 10 customers contributed more than 70% of SGL's total revenue in FY24 and Q1FY25 indicating customer concentration risk. CARE Ratings expects the company to onboard new customers, which is likely to improve customer diversification over the medium-to-long term.

Presence in highly competitive and fragmented jewellery business

The gems and jewellery (G&J) industry is highly fragmented with a high level of competition from both organised and unorganised players, which limits the pricing power. Additionally, the low value-added nature of operations constrains the profit margins for jewellery manufacturers. The industry players are also exposed to regulatory risks which could impact operations.

Liquidity: Adequate

The liquidity position is marked adequate considering sufficient cushion in accruals against its repayment obligations for FY25. SGL is expected to generate GCA of ~₹70 crore, against which the company has debt repayments of ~₹10 crore for FY25. The free cash balance stood moderately healthy at ₹13.35 crore and current ratio at 1.32x as on March 31, 2024. The average utilisation of its working capital limits in past 12 months ending June 2024 stood at 92%. CARE Ratings derives comfort from the sizeable fresh equity infusion of ₹108 crore in FY24 and expected enhancement in sanctioned working capital facilities by ~₹150 crore, which indicate SGL's financial flexibility.

Applicable criteria

Consolidation
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	Gems, jewellery and watches

Incorporated in 2008, SGL is engaged in designing, manufacturing, and marketing gold jewellery. SGL provides range of designs, and uses studded American diamonds and/or coloured stones in many of their jewellery products. The company mostly specialises in 22-Karat gold jewellery and offers a wide range of styles to meet consumer preferences. SGL caters to several wholesaler showrooms and retailers, buying products in bulk quantities. The manufacturing facility is in Shirawane, Navi Mumbai, with an installed capacity of upto 1,000 kg per month. In Q1FY25, the company announced acquisition of 100% equity stake in Starmangalsutra LLP and Sparkling Chains LLP.

Brief Financials (₹ crore) (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,154.12	1,746.23	723.00
PBILDT	36.92	78.48	37.00
PAT	18.61	40.48	21.00
Overall gearing (times)	1.49	1.35	NA
Interest coverage (times)	3.42	3.82	NA

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	420.11	CARE BBB; Positive / CARE A3+
Fund-based - LT/ ST-Term loan		-	-	2027	29.89	CARE BBB; Positive / 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/ ST-Cash Credit	LT/ST	420.11	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Dec-23)	-	-
2	Fund-based - LT/ ST-Term loan	LT/ST	29.89	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Dec-23)	-	-

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/ ST-Cash credit	Simple
2	Fund-based - LT/ ST-Term loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Starmangalsutra LLP	Full	Similar nature of business; operational and financial linkages expected from FY25.
2	Sparkling Chains LLP	Full	Similar nature of business; operational and financial linkages expected from FY25.

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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Disclaimer:

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