Priority Jewels Private Limited

October 04, 2024

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

Reaffirmation in ratings assigned to bank facilities of Priority Jewels Private Limited (PJPL) derives strength from the promoters' vast experience with well-established track record in diamond-studded gold jewellery business, having presence across key markets, moderate capital structure, long-standing relationship with reputed customers.

However, above rating strengths continue to be tempered by moderate scale of operations and profitability margins due to competitive nature of the industry, moderate debt coverage indicators, working capital intensive operations, profitability margins susceptible 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 total operating income (TOI) reaches ₹550 crore on a sustained basis.
- Improving profit margins with profit before interest, lease rentals, depreciation, and taxation (PBILDT) and profit after tax (PAT) margin exceeding 6.00% and 2.75%, respectively, on a sustained basis.
- Gearing ratio to be below 0.50x on a sustained basis.
- Improving total debt to gross cash accruals (TD/GCA), stood below 8.00x on a sustained basis.
- Improving operating cycle to below 110 days.

Negative factors

- Significantly lower-than-envisaged turnover and profitability margins leading to significant deterioration in cash accruals.
- Deteriorating overall gearing above 1.50x.
- Debt-funded capex/acquisition or significantly increasing working capital utilisation.
- Elongating operating cycle to above 170 days.

Analytical approach: Standalone

Outlook: Stable

PJPL is expected to benefit over the medium term from stable demand outlook in gold jewellery industry in domestic market.

Detailed description of 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 a decade. The company's operations are presently managed by Shailesh H. Sangani, Managing Director of PJPL, having more than three decades of rich experience in the gems and jewellery business. He is well supported by Tushar Mehta, director, and co-promoter, Manisha Sangani.

Presence across key G&J markets

The company has its presence across major G&J market across geographies. The company is primarily a diamond-studded jewellery player, however, exports contributed to around 42.08% of total sales in FY24 and remaining from within India. Apart from India, UAE, the US, and Hong Kong are the key G&J markets and continue to be the largest export destination for the company.

Well-established and reputed clientele base

PJPL supplies its diamond-studded gold jewellery to well-established and reputed clientele base, which includes, Reliance Retail, Caratlane Trading Pvt. Ltd., Malabar Gold, and Kalyan Jewellers, among others. Besides, the group has long established relationship with its clients ensuring repeat orders from them. The top 10 clients of PJPL contribute around 57.52% of its total revenue against 67.88% of its total revenue in FY23.

Moderate capital structure

The company's capital structure marked by overall gearing ratio deteriorated marginally to 1.32x as on March 31, 2024 against 1.17x as on March 31, 2023. The debt levels have increased considering higher dependence on working capital bank borrowings and unsecured loans from promoters. However, adjusted overall gearing ratio stood at 1.14x as on March 31,

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

2024 vis-à-vis 1.03x as on March 31, 2023. Adjusted overall gearing is calculated by netting off margin money from the bank borrowings.

Key weaknesses

Marginal decline in scale of operation and moderate profitability

The company posted revenue of ₹410.02 crore in FY24 against ₹470.42 crore in FY23. The de-growth of 12.84% in TOI can be attributed to muted sentiments driving the jewellery demand, especially from the export market. In 4MFY25 (refers to April 01, 2024 to July 31, 2024), the company has achieved total sales of ₹97.84 crore with net profit of ₹0.75 crore. However, the PBILDT margins of PJPL have improved and stood at 4.50% in FY24 against 3.19% in FY23 considering lower overheads. With the improvement in PBILDT margin and the lower interest cost, the PAT margin improved, however, remained low at 1.70% in FY24 against 0.95% in FY23.

Moderate debt protection metrics

Debt protection metrics, TD/GCA improved and stood at 14.92x as on March 31, 2024 against 20.24x as on March 31, 2023. Adjusted TD/GCA stood at 12.90x as on March 31, 2024 vis-à-vis 17.87x as on March 31, 2023, which is calculated by netting off margin money from the bank borrowings. Interest coverage ratio also improved and remained satisfactory at 2.24x in FY24 against 1.79x in FY23 owing to higher operating profitability.

Working capital intensive nature of operations

PJPL's working capital cycle deteriorated and stood at 158 days in FY24 against 128 days in FY23. PJPL's operations remained working capital intensive marked by funds being utilised towards debtors and inventory wherein, the inventory days have elongated significantly to 110 days from 68 days in FY23. The collection period also remained stable at 92 days in FY24 and 91 days in FY23. Average working capital utilisation of fund-based facilities of PJPL remained moderate at 66.20% in past 12 months ending July 2024. Utilisation of non-fund-based facility was around 100% in past 12 months ended on July 2024.

Foreign exchange fluctuation risk

PJPL derived around 42% of its overall revenues from the export sales in FY24. In FY24, the company has registered exports of around ₹171.29 crore. The company is a net exporter, and forex risk is partly hedged by entering into forward contracts. The company also gets some benefit of natural hedge. However, the company is exposed to volatility due to timing differences, making it susceptible to foreign exchange fluctuations. The company had foreign exchange gain of ₹2.45 crore in FY24 against ₹6.26 crore in FY23.

Susceptibility to raw material price volatility

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, profit margins for players in the G&J business remain susceptible to raw material price volatility.

Intense competition and fragmented nature of industry

The G&J industry and in India is highly fragmented with the presence of numerous unorganised 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 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 company is expected to generate cash accruals in the range of ₹8-9 crore against term loan repayment obligation of ₹3-4 crore. The free cash balance stood moderately healthy at ₹10.26 crore as on March 31, 2024 against ₹15.35 crore as on March 31, 2023. The average utilisation of its working capital limits in past 12 months ending July 2024 stood at 66.20%. The cash flow from operating activities was negative at ₹2.14 crore against positive cash flow from operations of ₹12.75 crore in FY23. On the other hand, the current ratio stood moderate at 1.45x as on March 31, 2024 against 1.46x as on March 31, 2023 and quick ratio stood at 0.66x as on March 31, 2024 against 0.86x as on March 31, 2023.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology – Cut & Polished Diamond (CPD) Industry

About company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

Incorporated on October 12, 2007, PJPL commenced operations on January 16, 2008. The company is jointly promoted by Shailesh H Sangani, Manisha Sangani, and Tushar Mehta. It is engaged in manufacturing and selling 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, UAE, the US, and Hongkong. In FY24, the company derived around 38% from sale of CPD and 62% from sale of diamond-studded jewelry. In FY24, the company derived around 42.08% of revenues from exports and the remaining revenue from domestic market.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	4MFY25 (Prov.)
Total operating income	470.42	410.02	97.84
PBILDT	15.03	18.47	3.60
PAT	4.47	6.99	0.75
Overall gearing (times)	1.17	1.32	1.03
Adjusted Overall gearing (times)	1.03	1.14	-
Interest coverage (times)	1.79	2.24	1.70

A: Audited; Prov.: Provisional; Note: these are latest available financial results.
Adjusted gearing ratio is calculated by netting off margin money wherein working capital limit utilised towards gold metal loan is ₹17.00 crore as on March 31, 2024, which is net of margin money (₹13.82 crore as on March 31, 2023).

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 last three years: Annexure-2

Covenants of rated instruments/facilities: Not applicable

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/Non-fund-based-LT/ST	-	-	-	-	99.00	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/Non-fund-based-LT/ST	LT/ST	99.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (09-Oct-23)	1)CARE BBB; Stable / CARE A3+ (06-Oct-22)	1)CARE BBB-; Stable / CARE A3 (30-Dec-21)

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/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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 clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Achin Nirwani Director **CARE Ratings Limited** Phone: 022- 6754 3566 E-mail: Achin.nirwani@careedge.in Arunava Paul Associate Director **CARE Ratings Limited** Phone: 022-67543667 E-mail: arunava.paul@careedge.in Pranjali Hatode Lead Analyst **CARE Ratings Limited** E-mail: pranjali.hatode@careedge.in

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