

Sona Hi Sona Jewellers(Gujarat) Limited

January 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Rating reaffirmed and withdrawn
Total Bank Facilities	-		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

CARE has reviewed the ratings assigned to the bank facilities of Sona Hi Sona Jewellers (Gujarat) Limited (SSJL) to **CARE BB-; Stable** and has simultaneously withdrawn it with immediate effect.

The ratings factor in its moderate scale of operations coupled with thin profitability, weak debt coverage indicators during FY20(Un-Audited, refers to period April 01 to March 31) coupled with presence in highly fragmented and competitive jewellery industry with presence of many unorganized players; coupled with susceptibility of margins to fluctuation in gold prices. The ratings, however, continue to draw strength from experienced and resourceful promoter group, established track record of the operations and comfortable capital structure.

The rating withdrawal is at the request of SSJL and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operation with thin profitability

During FY20, the scale of operation marked by total operating income of SSJL increased significantly by 40.44% over FY19 and remained moderate at Rs.94.35crore mainly on account of increase in demand from its end customers. However on account of increase in its raw material consumption cost along with increase in other administrative expenses, PBILDT margin of SSJL declined by 131 bps and remained thin at 1.78% in FY20 against 3.09% in FY19. Resultantly with higher interest and finance expense incurred by SSJL, PAT margin also declined marginally by 45 bps and remained thin at 0.09% in FY20 against 0.54% in FY19. Consequently, GCA also decreased and remained thin at Rs.0.14 crore in FY20 against Rs.0.41 crore in FY19.

Weak debt coverage indicators

On account of decrease in profitability, debt coverage indicators deteriorated and remained weak marked by ratio of total debt to GCA of at 146.37 times as on March 31, 2020 against 29.67 times as on March 31, 2019. Further, interest coverage ratio also remained in-line with previous year at 1.13 times in FY20 against 1.35 times in FY19. Further, SSJL has availed moratorium benefit as COVID-19 measure as deferment of CC interest for six months starting March-2020 till August-2020.

Presence in highly fragmented and competitive nature of industry with presence of many unorganized players

SSJL has its presence in gold jewellery retail industry, which is highly fragmented in nature with presence of numerous independent small-scale enterprises in unorganized sector and some of the large players in organized sector, leading to high level of competition. This is owing to low entry barriers due to minimal capital required, easy availability of raw materials (gold) and easy access to clients and suppliers.

Risk associated with fluctuation in gold prices

Fluctuation in the gold prices impact on the margins of players in Jewellery industry. The changes in the gold prices could impact the profitability to the extent of SSJL's inventory holding which the company has to maintain on a regular basis.

Key Rating Strengths

Experienced and resourceful promoter group and established track record of the company

Promoters of the company have a vast experience of more than a decade in the same line of business through their association with a group entity named Laxmi Goldorna House Limited. The promoters have also vast experience in real estate industry. Due to the presence of SSJL in the jewellery business for around more than a decade, it has become a well-known name in the jewellery industry in Ahmedabad (Gujarat). Promoters of SSJL are regularly infusing funds in the business in form of capital as well unsecured loans mainly to meet its working capital requirements.

Comfortable capital structure

As a result of increase in tangible networth base as a result of increase in share capital with decrease in total debt, capital structure of SSJL improved and remained comfortable at 0.55 times as on March 31, 2020 against 1.25 times as on March 31, 2019.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Wholesale Trading](#)

About the Firm

Ahmedabad (Gujarat) based SSJL is a part of 'Laxmi Group' and was established by Shah Family in the year 2002 as a proprietorship concern, later on it has changed its constitution as converted into a private limited company in the year 2010. Further it was converted into public limited company on October 15, 2019 and got listed on SME Emerge platform of National Stock Exchange. SSJL is engaged in the business of retailing of gold and silver jewellery from its showroom located in Ahmedabad (Gujarat).

Mr. Vijaybhai Shah and Mrs. Alpaben Shah are the key promoters of the company having more than a decade of experience in the jewellery business. Shah family has another company in the same line of business namely Laxmi Goldorna House Private Limited.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (UA)
Total operating income	67.18	94.35
PBILDT	2.08	1.67
PAT	0.37	0.08
Overall gearing (times)	1.25	0.55
Interest coverage (times)	1.37	1.13

A: Audited

Status of non-cooperation with previous CRA:

ICRA has suspended rating assigned to the bank facilities of SSJL as per press release dated September 21, 2015 on account of ICRA's inability to carry out a rating surveillance in the absence of the requisite information from the SSJL.

CRISIL has moved its rating assigned to the bank facilities of SSJL into Issuer non-cooperating category as per press release dated February 28, 2020 on account of CRISIL's inability to carry out a rating surveillance in the absence of the requisite information from the SSJL.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB-; Stable (04-Dec-19)	1)CARE BB-; Stable (05-Dec-18)	1)CARE BB-; Stable (06-Sep-17)

Annexure-3: Complexity level of various instruments rated for this firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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