

## Vaibhav Global Limited

July 27, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	153.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Revised from CARE A-; Positive / CARE A2+ (Single A Minus ; Outlook: Positive / A Two Plus)
Short Term Bank Facilities	5.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
<b>Total Facilities</b>	<b>158.00</b> <b>(Rs. One Hundred Fifty- Eight Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) considers volume-backed growth in its scale of operations along with improvement in its profitability, debt coverage indicators and liquidity during FY21 (refers to the period April 01 to March 31). The revision in ratings also factor in expansion of VGL's non-jewellery product portfolio and increased focus on high margin Business to Customer (B2C) segment during FY21.

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 and comfortable capital structure.

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 also continue to remain constrained due to working capital intensity of its operations due to high inventory holding, susceptibility of its profitability to volatility in exchange rate & raw material prices and the risk of bad debt/write-off on budget pay (EMI scheme) sales

### Rating Sensitivities

**Positive Factors** - Factors that could lead to positive rating action/upgrade:

- Increase in its total operating income (TOI) to more than Rs.3500 crore through greater geographical diversification of its revenue while maintaining its PBILDT margin on a sustained basis
- Reduction in operating cycle below 60 days on a sustained basis
- Sustaining the comfortable capital structure and debt coverage indicators at current levels while further improvement in its liquidity position

**Negative Factors**- Factors that could lead to negative rating action/downgrade:

- Reduction in its PBILDT margin below 11% on a sustained basis
- Any major debt-funded capex resulting to deterioration in capital structure with overall gearing beyond 0.50 times
- Significant increase in receivable/inventory level or bad debts affecting cash flows and profitability
- Any regulatory changes or slowdown in key markets (USA and UK) impacting the business of the company at a consolidated level
- Any adverse outcome of the proceedings of Income Tax Department for AY2012-13 resulting in significant outflow towards income tax liability

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Growth in total operating income (TOI) along with improvement in profitability:** VGL's TOI (at a consolidated level) grew by around 28% y-o-y to Rs.2544 crore in FY21 on account of healthy growth in sales volume and new product launches across jewellery and non-jewellery product segment in its key markets i.e. USA and UK.

VGL derived around 69% of its TOI in FY21 from sale of gemstone-studded jewellery and balance 31% was generated from sale of lifestyle and beauty products.

Revenue from B2C segment (constituting around 99% of total consolidated sales) grew by around 30% y-o-y during FY21, bolstered by growth in TV and Web revenue by 25% (to Rs.1606 crore) and 44% (to Rs.909 crore) respectively. Revenue from sales through budget pay EMI scheme reduced and constituted around 36% (39% in FY20) of B2C revenue in FY21.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Adoption of an asset-light model, vertically integrated sourcing arrangement and benefits from economies of scale resulted in further improvement in VGL's PBILDT and PAT margin by 129 bps (to 14.72%) and 113 bps (10.68%) respectively in FY21.

On a standalone level, VGL's TOI moderated by 16% y-o-y to Rs.452 crore on account of the impact of COVID-19 pandemic on operations. During FY21, VGL's PBILDT margin reduced by 1507 bps over FY20 to 10.84% on account of higher fixed expenditure (incl employee cost) at manufacturing facilities and lower dividend from its wholly owned subsidiary i.e. VGL Retail Ventures Limited, Mauritius.

**Comfortable capital structure and debt coverage indicators:** Healthy net worth base supported by strong cash accruals & fresh issue of equity shares in FY21 has resulted in overall gearing at 0.14 times as on March 31, 2021 (P.Y. end 0.14 times).

Debt coverage indicators improved further with PBILDT interest coverage at 80.88 times in FY21 (FY20: 30.94 times) on account of higher PBILDT and reduction in finance cost. VGL's total debt to PBILDT remained comfortable at 0.33 times in FY21 (FY20: 0.38 times).

On a standalone level, VGL's capital structure stood comfortable with overall gearing of 0.11 times as on March 31, 2021 (P.Y end: 0.12 times). Total debt to PBILDT, albeit deteriorated to 1.15 times during FY21 (FY20: 0.46 times), its interest coverage improved to 27.49 times during FY21 (FY20:21.49 times) on account of significant reduction in finance cost.

**Vertically integrated business model with strong presence and coverage in USA & UK:** Owned manufacturing facilities in India for jewellery, strong sourcing arrangements in over 20 countries through WOS from China, Hong Kong, Indonesia, etc. has helped VGL to reduce delivery times. During FY21, VGL increased its home and lifestyle product portfolio and launched COVID-19 essentials like health supplements, sanitizers, gloves, mask etc., which have contributed to growth in revenue from non-jewellery segment in FY21.

Along with above, marketing goods through proprietary channels and increasing its presence on web platforms, online marketplaces and social commerce platforms has helped VGL to improve its presence in the e-retail market.

During FY21, VGL reported more than 5 lakh unique customers, 3.4 lakh new customer registrations and coverage to 104 million households in FY21. VGL's two proprietary TV sales platforms, i.e. Shop LC in the USA and Shop TJC in the UK, account for nearly 66% of its TOI for FY21, while the balance is contributed by web platforms.

**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 professionals and independent directors, who have vast experience in e-commerce and retail, finance, merchandising, etc. Under their leadership, the group has reported a track record of growth in e-retail of jewellery as well as lifestyle and essential products.

#### Key Rating 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. While COVID-19 pandemic had impacted demand of discretionary products in H1FY21, change in product portfolio and shift of retail consumption from brick and mortar to e-commerce platforms is expected to provide greater stability to VGL's business prospects.

**Susceptibility of profit margins 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 and UK are subject to strict laws and regulations applicable to video and e-commerce business. Moreover, e-commerce retail business is highly competitive and VGL faces direct competition from other established television shopping and e-commerce retailers, traditional brick and mortar stores, discount stores, warehouse stores and speciality stores; catalog 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:** During FY21, VGL's budget pay EMI scheme constituted around 35% of total B2C sales as compared to 39% in FY20. Budget pay EMI 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 was 0.55% of net sales in FY21 (0.57% in FY20), any significant

increase in bad debts or receivable levels can adversely impact the profitability and liquidity of the company; consequently, the same remains a key rating sensitivity.

**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 3 months (raw material for manufacturing at standalone level). Moreover, growing scale of operations, expansion of product portfolio and a higher lead time has resulted in increase in VGL's inventory levels. VGL's operating cycle reduced to 81 days in FY21 (FY20: 92 days). Nevertheless, VGL liquidates its slow-moving inventory through rising auctions and clearance sales at a frequent interval. Furthermore, VGL's receivables level remain low since majority of retail sales are on cash basis. Current ratio stood around 3.13 times as on March 31, 2021 as against 2.85 times as on March 31, 2020.

**Income Tax demand notice:** VGL has received order for scrutiny under sections 147/148 of Income Tax Act wherein the Income Tax department had asked for submission of certain information and documents with regard to Assessment Year (AY) 2012-13 on the basis of search conducted by IT department at premises of different business groups. Subsequently, VGL obtained a stay on the said proceedings from Honourable High Court of Rajasthan in December 2019. Furthermore, VGL's management has articulated that as per legal opinion available with them, the likelihood of crystallization of any major income tax liability on this count is remote. Nevertheless, a major IT liability can have an adverse impact on its liquidity as well as its credit profile and hence the final outcome of the proceedings would remain a key monitorable.

#### Liquidity: Strong

VGL's liquidity is underpinned by growth in cash flow from operations to Rs.303 crore (FY20: Rs.216 crore) against negligible term debt obligations during FY21 and healthy free cash & bank balance (incl. investments) of Rs. Rs.468 crore as on March 31, 2021 (Rs.257 crore as on March 31, 2020). Moreover, utilisation of working capital limits remained low at just 36% during the trailing 12-months ended May 2021. VGL's capex requirements are modular and are expected to be funded through internal accruals as well as available free liquidity. VGL did not avail moratorium under the RBI's Covid-19 relief package and has been servicing its debt obligations as per original repayment schedule.

On a standalone level, VGL reported positive cash flow from operations at around Rs.10 crore as on March 31, 2021 as against negative Rs.36 crore during FY20 and had free cash and bank balance (including liquid investment) of Rs.55 crore (Rs.84 crore as on March 31, 2020) as against total debt of Rs.56 crore as on March 31, 2021.

**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- 3**.

#### Applicable Criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Factoring Linkages- Consolidation](#)

[Rating methodology- Retail](#)

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

[Liquidity analysis of Non-financial Sector Entities](#)

#### About the Company

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](http://www.shoplc.com)) and UK ([www.tjc.co.uk](http://www.tjc.co.uk)) and mobile applications, which complements VGL's TV coverage, while diversifying customer engagement.

Brief Financials - Consolidated (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1992.24	2544.25
PBILDT	267.59	374.41
PAT	190.26	271.75
Overall gearing (times)	0.14	0.14
Interest coverage (times)	30.94	80.88

A: Audited

Brief Financials – Standalone (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	539.25	452.52
PBILDT	139.71	49.04
PAT	127.37	46.83
Overall gearing (times)	0.12	0.11
Interest coverage (times)	21.49	27.41

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-4

#### 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
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A1
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	153.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	3.00	CARE A1

#### 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A1	-	1)CARE A2+ (20-Nov-20) 2)CARE A2+ (29-Apr-20)	1)CARE A2+ (13-Nov-19)	1)CARE A2+ (24-Aug-18)
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	153.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (20-Nov-20) 2)CARE A-; Stable / CARE A2+ (29-Apr-20)	1)CARE A-; Positive / CARE A2+ (13-Nov-19)	1)CARE A-; Positive / CARE A2+ (24-Aug-18)
3.	Fund-based - ST- Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (13-Nov-19)	1)CARE A2+ (24-Aug-18)
4.	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A1	-	1)CARE A2+ (20-Nov-20)	-	-

\*Long Term / Short Term

**Annexure-3 List of subsidiaries and step-down subsidiaries has been presented below-**

Name of the entity	% shareholding (As on March 31, 2021)
<b>Direct subsidiaries</b>	
VGL Retail Ventures Limited	100%
STS Gems Japan Limited	100%
STS Gems Limited	100%
STS Gems Thai Limited	100%
STS Jewels Inc., USA	100%
Vaibhav Vistar Limited	100%
Vaibhav Lifestyle Limited	75%
<b>Step-down subsidiaries</b>	
Shop TJC Limited, UK	100% subsidiary of VGL Retail Ventures Limited (Erstwhile, Genoa Jewelers Limited)
Shop LC Global Inc., USA	100% subsidiary of Shop TJC Limited
Pt. STS Bali, Indonesia	100% subsidiary of STS Gems Limited
STS (Guangzhou) Trading Limited	100% subsidiary of STS Gems Limited
Shop LC GmbH, Germany	100% subsidiary of Shop TJC Limited

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Forward Contract	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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