Priority Jewels Private Limited

December 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	**99.00**	**CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)**	**Reaffirmed**
Total Facilities	**99.00 (Rs. Ninety-Nine Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Priority Jewels Private Limited (PJPL) continues to derive comfort from the experienced promoters with an established track record in the Gems & Jewellery (G&J) business, having presence across key G&J markets along with having long-standing relationship with well-established and reputed clientele base.

Furthermore, the ratings continue to factor in the steady scale of operations in FY21 (refers to the period from April 01 to March 31) albeit registered improvement in scale of operations in H1FY22 (refers to the period April 01 to September 30) on the back of buoyancy in demand and recovery in retail off take in key markets such as the US and China, which helped India's G&J industry contain the decline in exports in fiscal 2021 and in H1FY22. Hence, players with long standing presence, integrated operations and good distribution network especially benefitted during the year. The players in the jewellery sector has also benefitted from the uptick in demand from the domestic market as well owing to weddings season and revenge buying. Further, CARE believes, uptick in demand is expected to sustain over the medium term with improvement in economic outlook of key geographies in a post pandemic era.

The above rating strengths are however continue to be tempered by low profitability margins, working capital intensive operations resulting in long operating cycle in the light of high receivable and inventory levels, deterioration in leverage albeit at above unity levels, susceptibility of profitability margins to foreign exchange fluctuation, volatility in rough diamond prices and gold while having presence in the highly competitive and fragmented nature of the G&J industry.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income close to around Rs. 400 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 6.00% and 2.00% respectively on a sustained basis
- Improvement in Gearing levels to below unity
- Improvement in total debt to GCA to improve and stood below 10.00x on a sustained basis.
- Improvement in operating cycle to around 175 days

Negative factors

- Significantly lower than envisaged turnover and profitability margins leading to significant deterioration in cash accruals
- Deterioration in overall gearing above 1.50x
- Significant deterioration in operating cycle led by stretched collection period and inventory days.

Detailed description of the key rating drivers

Key rating Strengths

Established long track record and market presence backed by experienced promoters in the Gems & Jewellery industry

PJPL has an established presence in the diamond studded gold and platinum jewellery manufacturing industry for more than half a decade. The operations of the company is presently managed by Mr. Shailesh H. Sangani, Managing Director of PJPL having rich experience of more than three decades in the gems and jewellery business. He is well supported by Mr. Tushar Mehta, Director and co-promoter, Mrs. Manisha Sangani.

Presence across key G&J markets

The company has its presence across major G&J market across geographies. The company is primarily domestic studded jewellery player however exports contributed to about 50% to 60% of total sales in FY21 and remaining from within India. Apart from India, Hong Kong, USA and UAE are the key G&J markets, and continues to be the largest export destination for the company.

Well established and reputed clientele base

PJPL supplies its diamond studded gold jewellery to various well established and reputed clientele base which includes TBZ group, Reliance Retail, Kalyan Jewellers, P.C. Jewellers, Joy Alukkas India Ltd., Caratlane Trading Pvt. Ltd., PC Chandra Group, etc. Besides, the group has long established relationship with its clients ensuring repeat orders from them. The top ten clients of PJPL contribute around 65.86% of its total revenue during FY21 vis-à-vis 52.30% of its total revenues during FY20.

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

Integrated operations of the group supported with vast distribution network

The operations of the PJPL is well integrated in the field of jewellery manufacturing and marketing as PJPL's operations spans from trading in polished diamonds to diamond studded gold and platinum jewellery manufacturing. PJPL procures gold from various bullion banks and diamonds from the open market. In domestic market, the group sells diamond studded jewellery to various parts of India catering to established reputed jewellers and ecommerce platform Caratlane.

Steady scale of operations in FY21; albeit growth in H1FY22

The company's scale of operation though reflected de-growth of 32.45% in the total operating income wherein the same stood at Rs. 264.02 crore in FY21 vis-à-vis Rs. 390.87 crore in FY20 on account of impact of covid-19 bringing disruptions in the business environment on the back of lockdowns announced by the government. This has led to muted demand sentiments which has impacted the business in the first half of the fiscal year 2021. However, during the period April 01 2021 to November 30, 2021, the company has achieved robust sales of Rs. 293.61 crore on the back of healthy demand from the key G&J markets along with healthy demand from the domestic market.

Key Rating Weaknesses

Low profitability margins

The PBILDT margins of PJPL though improved from 3.80% during FY20 to around 4.61% in FY21 owing to savings in various overheads; yet it remained lower. PAT margin stood at same level at 0.77% in FY21 vis-à-vis 0.79% during FY20.

Moderate financial risk profile

The company has moderate financial risk profile marked by large net worth position, moderate debt levels comprising of working capital borrowings, gold loans against SBLC (standby letter of credit) and ECLGS (Emergency Credit Line Guarantee Scheme) loans. With increase in working capital borrowings utilization to meet increasing demands, the overall gearing deteriorated from 0.88x as on March 31 2020 to 1.16x as on March 31 2021 and to 1.20x as on Sep 30 2021. Total Debt/GCA deteriorated from 18.44x as on March 31 2020 to 30.95x as on March 31 2021. However the annualized total debt to GCA improved and stood at 15.33x as on September 30, 2021. Interest coverage remained satisfactory at 1.49x for FY21 and 2.11x as on H1FY22.

Working capital intensive nature of operations

PJPL's working capital cycle stretched further and stood at 211 days in FY21 vis-à-vis 146 days in FY20. The operations of PJPL remained working capital intensive marked by funds largely utilised towards funding debtors and inventory wherein the inventory days elongated from 95 days in FY20 to 121 days in FY21. Further the collection period also stretched from 110 days in FY20 to 167 days in FY21. Gross Current Asset days has also elongated from 218 days in FY20 to 300 days in FY21. The working capital cycle is on higher side owing to higher business activities in second half of FY21 post ease of lockdown in the country. Average working capital utilization of fund-based facilities of PJPL remained high at 91% during past twelve months ending Sept 2021. Utilization of non-fund-based facility was almost full during past twelve months ended on Sept 2021.

Foreign exchange fluctuation risk

PJPL derived around 50% to 60% of its overall revenues from the export sales in FY21. The company does not have policy to hedge its export receivables to mitigate foreign exchange fluctuation risk. The company had reported foreign exchange gain of Rs. 1.26 crore during FY21 (PY: Rs. 5.18 crore during FY20).

Susceptibility to volatility in raw material prices

PJPL is not a DTC sight holder. It procures polished diamonds largely from the open market. However the company procures gold metal loan from banks to mitigate risk of volatility in gold prices. Nevertheless, the profit margins for players in the G&J business remain susceptible to volatility in raw material prices.

Intense competition and fragmented nature of the industry

The G&J industry and in India is highly fragmented with the presence of numerous unorganized 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 various guidelines by Government of India, change in taxation structure, impacting the industry.

Industry:

Gems & Jewellery India is the largest centre for cut and polished diamonds, annually processes about 1 billion pieces of diamonds valued at USD 23 bn. India exports 90% of the cut and polished diamonds and contributes to 29% of the global jewellery consumption. Today, 14 out of every 15 diamonds sold in the world are processed in India. The country's share in global diamond market stands at 65% in value terms and 85% in volume terms. FY21 was an exceptional year with supply chain disruptions caused by the pandemic. Yet the Indian gems and jewellery industry exhibited resilience, adapted to the new normal and strived towards attaining recovery in exports, especially in H2FY21. The miners adopted price over volume strategy which protected stock piling and eased pressure on inventory. The pentup demand and healthy export orders during H2FY21 from the USA and China, which consume 50% and 20% of diamonds produced in the world, respectively, resulted from robust vaccination drives, stimulus package and reduced leisure spending helped reviving the CPD industry at faster pace. As per GJEPC, exports of cut and polished diamonds declined 12.1% from USD 18.66 bn in FY20 to USD 16.4 bn in FY21. However, reported recovery on M-o-M basis from USD 0.92 bn in July 2020 to 1.90 bn in September 2021.The total exports of CPD from India was USD 12.37 bn in H1FY22.Going forward, larger integrated players with strong sourcing relationships for raw material (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), those with better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy, are likely to exhibit better & stable credit profiles.

Liquidity Analysis: Adequate
The liquidity position remained adequate marked by sufficient cushion in accruals against its repayment obligations. The free cash balance stood moderate at Rs. 12.11 crore as on March 31, 2021 vis-à-vis free cash and bank balance of Rs. 12.20 crore as on March 31, 2020. The average utilization of its working capital limits during past twelve months ending September 2021 stood at 91%.

Analytical approach: Standalone

Applicable criteria:
Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Financial ratios – Non-Financial Sector
Short Term Instruments
Manufacturing Companies
Rating Methodology – Cut & Polished Diamond (CPD) Industry

About the Company
Incorporated on October 12, 2007, Priority Jewels Private Limited commenced operations on January 16, 2008. The company is jointly promoted by Mr. Shailesh H Sangani, Mrs. Manisha Sangani, and Mr. Tushar Mehta. It is engaged in the manufacturing and selling of 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, Hongkong, Middle East and USA. During FY21, the company derived around 70% from sale of CPD and 30% from sale of diamond studded Jewellery. In FY21, the company has derived around 48.44% of revenues from exports and remaining revenue from domestic market.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	390.87	264.02	179.41
PBILDT	14.86	12.18	8.61
PAT	3.07	2.05	2.92
Overall gearing (times)	0.88	1.16	1.20
Interest coverage (times)	1.67	1.49	2.11

A: Audited; Prov.: Provisional; NA: Not Available

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: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	99.00	CARE BBB-; Stable / CARE A3

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	Fund-based/Non-fund-based-LT/ST	LT/ST*	99.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (19-Mar-21)	1)CARE BBB; Stable / CARE A3+ (31-Mar-20)	1)CARE BBB; Stable / CARE A3+ (28-Jan-19) 2)CARE BBB; Stable / CARE A3+ (03-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Penal interest rate	Penal interest for non compliance – 18.75% p.a. or 2% above present applicable rate whichever is higher. Penal interest for irregularity/overdue – 18.75% p.a. or 2% above present applicable rate whichever is higher
B. Non-financial covenants	
1. Stock Audit	The copy of Annual Stock Audit Report should be made available to the bank (in case of consortium/multiple banking)

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

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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