Priority Jewels Pvt Ltd

January 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities/ Short-term Bank Facilities	110.00	**CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**	**Reaffirmed**
Total Facilities	**110.00 (Rs. One hundred and ten crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Priority Jewels Pvt Ltd (PJPL) factors in the established presence of the Priority Group and experience of its promoters, vast distribution network, well established clientele and continued financial support from PE investors.

However, the rating strengths are tempered by moderate financial risk profile, foreign exchange fluctuation risk, volatility in raw material prices and presence in highly competitive and fragmented Gems and Jewellery (G&J) industry.

Ability of PJPL to improve upon its operating income and profitability margins, amidst volatility in the diamond and precious metal prices, remains the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths:

Experienced and reputed promoters in jewellery industry

PJPL has an established presence in the diamond studded Jewellery manufacturing industry for more than a decade and in plain gold jewellery manufacturing through PJPL's subsidiary Priority Gold Private Limited (PGPL) since August 2011. The management of the group is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

Integrated operations of the group supported with vast distribution network

The operations of the Priority Group is well integrated in the field of jewellery manufacturing and marketing as PJPL's operations spans from trading in polished diamonds to diamond studded jewellery manufacturing while PGPL's operations is mainly into plain gold jewellery manufacturing.

Well established and reputed clientele albeit majority revenue from group companies

The top 10 clients of Priority group contribute around ~67% of its consolidated revenues in FY18 as compared to ~70% of overall revenues in FY17 thereby indicating client concentration risk. Further, for PJPL at consolidated level, PGPL contributes to ~64% of revenue. Also it should be noted that ~85% of revenues for PGPL is derived from group entity Priority Jewellery Trading LLC (UAE).

Continued financial support from PE investors and promoters

As on December 31, 2018, the promoters of PJPL held around 69.88% stake and a Singapore-based PE firm Christopher Investment Pte. Ltd. (CIPL) held the balance 30.12% shares in the company.

Key Rating Weaknesses:

Stable scale of operations with constrained profitability

Total income for PJPL consolidated basis remained stable at Rs. 985.55 crore in FY18 which is around ~2% improvement from Rs. 959.66 crore in FY17. PJPL reported PBILDT margins of 3.74% in FY18 vis-à-vis 4.32% in FY17. PAT margin remained constrained to 1.39% in FY18 vis-à-vis 1.67% in FY17.

Moderate financial risk profile

The debt profile of Priority Group comprises majorly of working capital bank borrowings and unsecured loans from the promoters. Overall gearing is high however it improved from 2.06x in FY17 to 1.96x in FY18 on account of increase in net worth as compared to working capital borrowings due to healthy profits. Also overall gearing adjusted after reducing gold loan against FD deteriorated slightly in FY18 at 1.51x as compared to 1.48x FY17. Total Debt to GCA is critical at 18.97x in

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

FY18 compared to 16.05x in FY17. Also Total Debt to GCA adjusted after reducing gold loan against FD is 14.64x in FY18 compared to 11.51x in FY17. Total Outside liabilities to Net Worth remains critical at 2.40x in FY18 vis-à-vis 2.44x in FY17. Interest coverage ratio is healthy at 2.09x in FY18 from 2.08x in FY17.

Foreign exchange fluctuation risk
Priority Group business is majorly export oriented so operational performance of the group is exposed to foreign exchange fluctuation risk.

Susceptibility to volatility in raw material prices
PJPL is not a DTC sight holder. It procures polished diamonds largely from open market. However the company procures gold metal loan from banks to mitigate risk of volatility in gold prices.

Analytical approach: *Consolidated*

Applicable Criteria
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financials Ratio-Non Financial Sector
Criteria on Assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition

Liquidity Analysis:
As of 31st March 2018 the company had a cash balance of Rs.103.41Crore. Working capital cycle was stretched from 103 days in FY17 to 106 days in FY18 on account of increase in inventory period. Current ratio of the company remained stable at 1.27x in FY18.

About the Company
Incorporated on October 12, 2007 Priority Jewels Private Limited (PJPL) commenced operations on January 16, 2008. The company is jointly promoted by Mr. Shailesh H Sangani, Mrs. Manisha Sangani, Mr. Joel Cardoso and Mr. Tushar Mehta. It is engaged in the manufacturing and selling of diamond studded and gold/silver/platinum jewellery. The manufacturing facilities are in the premises of its registered office in MIDC, Andheri (Mumbai).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Income	959.66	985.55
PBILDT	41.49	36.88
PAT	16.06	13.69
Overall gearing (times)	2.06	1.96
Adjusted Overall gearing (times)*	1.48	1.51
Interest coverage (times)	2.08	2.09

A: Audited
** Adjusted Overall gearing is calculated after reducing gold loan taken against FD*

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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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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/Non-fund-based-LT/ST	-	-	-	110.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (03-Apr-18)	1)CARE BBB-; Stable / CARE A3 (03-May-17)	-	1)CARE BBB / CARE A3+ (08-Mar-16) 2)CARE BBB / CARE A3+ (27-Apr-15)

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