RMC Gems India Limited

January 02, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Short-term Bank Facilities	51.00	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**51.00 (Rupees Fifty one crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of RMC Gems India Limited (RGIL) takes into account the decline in its scale of operations and profitability during FY19 (refers to the period April 1 to March 31) which also remained significantly lower than previously envisaged. The revision in rating also factors continued decline in its sales during H1FY20 apart from significant deterioration in its capital structure and debt coverage indicators along with elongation of its operating cycle in FY19 and increase in its exposure to its subsidiary which has resulted in stretch in its liquidity.

The rating, further, continues to remain constrained on account of geographical as well as customer concentration risk and susceptibility of its profitability to adverse fluctuations in raw material prices and foreign currency exchange rates along with its presence in the highly competitive and unorganized gems and jewellery industry.

The above constraints outweigh the benefits derived from long-standing experience of the promoters in the coloured gemstones business along with their demonstrated financial support and RGIL's modest scale of operations and moderate profitability margins.

Rating Sensitivities

Positive Factors

- Sizeable increase in scale of operations along with greater customer and geographical diversification on a sustained basis
- Improvement in PBILDT margin to above 14% on sustained basis along with contraction in its operating cycle to less than 150 days
- Improvement in overall gearing below 1.25 times
- Improvement in debt coverage indicators with PBILDT Interest coverage above 2.00x and total debt to GCA below 7 times on sustained basis
- Significant reduction in exposure to its subsidiary

Negative Factors

- Decline in its TOI to less than Rs.50 crore.
- PBILDT margin falling below 8% on sustained basis
- Deterioration in its overall gearing beyond 2.00 times
- Further increase in its exposure to subsidiary adversely impacting its liquidity

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in its scale of operations with high customer and geographical concentration:

During FY19, TOI of the company declined by around 7.51% on y-o-y basis to Rs.108.18 crore, owing to lower demand from its customers due to subdued market conditions. RGIL generates majority of its sales from Hong Kong and Thailand with top 5 customers in these two countries contributing around 93% of its net sales during FY19, thereby indicating high customer concentration as well as low geographical diversification. Further, during H1FY20, the company has reported net sales of Rs.36.95 crore and up-to December 24, 2019, RGIL has reported lower sales of Rs.49.02 crore on account of political instability in its key market i.e. Hong Kong. However, the company has started receiving regular orders as evinced by confirmed orders of around Rs.15.00 crore as on December 24, 2019 from Hong Kong which is to be dispatched within one month.

Deterioration in capital structure and debt coverage indicators:

RGIL's capital structure deteriorated and stood moderately leveraged with an overall gearing of 1.85 times as on March 31, 2019, as compared to 1.37 times as on March 31, 2018 mainly on account of increase in total debt level which was attributed to infusion of unsecured loan by the promoters as well as availing of new term loan for acquisition of flat for guest house purpose and a running factory premises. RGIL's debt coverage indicators have also exhibited deterioration from FY18 level

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

and stood weak with total debt to GCA of 26.49 times as on March 31, 2019 having deteriorated from 14.15 times as on March 31, 2018 due to higher total debt along with decline in its GCA level. Further, due to lower operating profit as well as increase in interest expenses, its interest coverage deteriorated to 1.58 times in FY19 as against 1.80 times in FY18.

Liquidity-Stretched:
RGIL's liquidity position remained stretched marked by expectation of tightly matching cash accruals and debt repayment obligations, highly utilized bank limits and modest cash and bank balance. RGIL's average utilization of working capital limits stood high with almost full utilization during trailing 12 months ended November, 2019 as confirmed by its banker along with elongated working capital cycle of 366 days on account of higher collection period as well as higher inventory. Its cash flow from operating activities decreased to Rs.2.36 crore in FY19 from Rs.13.27 crore in FY18. However, inventory and receivables declined to Rs.47.39 crore and Rs.35.67 respectively as on November 30, 2019 as against Rs.52.36 crore and Rs.53.20 crore respectively as on March 31, 2019. The company provides credit period of around 5-6 months to its customers while it gets credit of around 30 days for raw material from domestic suppliers and is required to make payment within a day's time to its foreign suppliers. Further, the liquidity ratios of the company stood moderate with current ratio at 1.02 times; while quick ratio remained below unity at 0.54 times as on March 31, 2019 due to higher investments in inventory.

Increase in exposure to subsidiary:
RGIL's exposure (investments and loan advances) in its US based subsidiary, RMC Inc. has increased from Rs.36.76 crore as on March 31, 2018 to Rs.42.58 crore as on March 31, 2019 in order to support its operations. Against this, the company had unsecured loans of Rs.52.86 crore from the promoter group as on March 31, 2019 which increased from Rs.27.81 crore as on March 31, 2018. However, any further increase in exposure to its subsidiary adversely affecting RGIL's liquidity would be a key rating sensitivity.

Presence in highly competitive and unorganized gems and jewellery industry along with risk associated with raw material prices and foreign exchange rate fluctuation:
Indian Gems & Jewellery market is highly fragmented across the value chain with around 80% of players operating in the unorganized sector, which are mostly family run labour intensive, and use indigenous technology.
The basic raw material for RGIL is rough gemstones. Hence the prices of its raw materials, for manufacturing, vary in line with those of international prices of rough gemstones which make RGIL's profitability susceptible to volatility in raw material prices. RGIL mainly sources its raw material from foreign countries with total procurement constituting around 77% in FY19 (80% in FY18) while the remaining was sourced from the domestic market (mainly Jaipur). Further, the company generates 100% of its sales through exports. Thus, RGIL has natural hedge for part of its exports. However, being a net exporting company, any adverse fluctuation in currency can impact the profitability of RGIL as the company does not follow any active hedging policy.

Outlook on Industry
Gems & Jewellery exports are unlikely to witness significant growth in FY20 and would probably either remain flat or could even continue to fall as was the case in the past two years. Even as the long term demand is expected to remain steady, short demand is expected to remain tepid with credit restrictions by banks and geopolitical tensions impacting the G&J sector.

Key Rating Strengths
Long standing presence of promoters of over a decade in the coloured gemstones business along with their demonstrated financial support:
RGIL was incorporated in 2001 by Mr. Nirmal Kumar Bardiya along with his wife Ms. Kusum Bardiya and is largely run as a family managed business. The company benefits from the vast experience of more than a decade of promoters in the Gems & Jewellery industry. Additionally, over the past years, promoters have continuously provided financial support to the company in the form of infusion of unsecured loan as and when required. The promoter has infused unsecured loan amounting to Rs.0.89 crore, Rs.13.94 crore & Rs.25.05 crore respectively in FY17, FY18 & FY19.

Moderate profitability margins:
Despite decline in RGIL's scale of operations and elongation in its operating cycle, its PBILDT margin continued to remain at moderate level of 12.81% during FY19.

Analytical approach: Standalone
Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 2001, RGIL is promoted by Mr Nirmal Kumar Bardiya along with his wife Ms Kusum Bardiya. The company is engaged in the business of processing and export of precious and semi-precious gemstones like Tourmaline, Topaz, Ruby, Amethyst and Citrine through its unit located at Sitapura Industrial Area in Jaipur. It exports processed gemstones mainly to Hong Kong, Thailand and Japan. During FY16, RGIL had also entered the United States of America market through its subsidiary i.e. RMC Gems and Jewellery Inc., USA (RMC Inc), which has one subsidiary namely, International Gems and Minerals INC, (IGM) and associate concern Centre Pointe Pacific LLC., USA (CPPL). IGM is a wholly owned subsidiary of RMC Inc (which started its operations from FY18 onwards) and is engaged in trading of gemstones and primarily caters to US market. Further, in CPPL, RMC Inc has taken 50% stake (rest 50% share belongs to Mr. Abdelsallam Khattab) whose prime source of revenue is through rent earned from its building. Further, 'Bardiya family' has also promoted Bardiya Gems & Jewellery Co. which is engaged in the same line of business.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	116.97	108.18
PBILDT	15.53	13.86
PAT	4.73	2.51
Overall gearing (times)	1.37	1.85
Interest coverage (times)	1.80	1.58

A: Audited

As per provisional results for H1FY20, RGIL reported net sales of Rs.36.95 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for 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 - ST-EPC/PSC	-	-	-	42.50	CARE A4+
Fund-based - ST-Line of Credit	-	-	-	8.50	CARE A4+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-EPC/PSC	ST	42.50	CARE A4+	-	1)CARE A3 (04-Jan-19)	1)CARE A3 (15-Feb-18)	1)CARE A3 (16-Feb-17)
2.	Fund-based - ST-Line of Credit	ST	8.50	CARE A4+	-	1)CARE A3 (04-Jan-19)	1)CARE A3 (15-Feb-18)	1)CARE A3 (16-Feb-17)

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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