RMC Gems India Limited

January 04, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short term bank facilities	51.00	**CARE A3 (A Three)**	**Reaffirmed**
Total facilities	**51.00 (Rupees Fifty one crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of RMC Gems India Limited (RGIL) continues to derive strength from long-standing experience of the promoters in the coloured gemstones business along with its financial profile marked by moderate albeit fluctuating profitability margins, moderate capital structure and moderate debt coverage indicators.

The rating, however, continues to remain constrained on account of its fluctuating scale of operations during last three financial years ended FY18 (refers to the period April 1 to March 31) and working capital intensive nature of operations with stretched operating cycle. The rating, further, remains constrained on account of increase in exposure to subsidiary along with its presence in the highly competitive and unorganized gems and jewellery industry, geographical as well as customer concentration risk and susceptibility of its profitability to adverse fluctuations in foreign exchange rates.

RGIL's ability to expand its business operations through greater customer and geographical diversification along with improvement in its profitability and capital structure as well as efficient working capital management shall be the key rating sensitivities. Further, any further increase in exposure to subsidiary will also be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing presence of promoters of over a decade in the coloured gemstones business:

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 gets benefitted from the vast experience of more than a decade of promoters in the Gems & Jewellery industry.

Fluctuating albeit moderate profitability:

Profitability margins of the company have exhibited fluctuating trend during the past three years (FY16-FY18) on account of risk associated with raw material prices i.e. rough gemstones which varies with those of international prices along with limited pricing power in the competitive market scenario. During FY18, PBILDT margin of the company increased by around 47 bps to 13.27% on account of lower raw material consumption cost along with higher sale of high value gemstones. Despite increase in operating profit margin, PAT margin of the company declined to 4.04%, on account of proportionately higher depreciation expenses as well as higher interest expenses.

Moderate capital structure and debt coverage indicators:

The capital structure of the company remained moderate with an overall gearing of 1.37 times as on March 31, 2018, which however deteriorated due to unsecured loan amounting to Rs.13.94 crore infused by the promoters which were utilized for providing financial support to its subsidiary RMC Inc in order to support the operations of its step down subsidiary i.e. IGM.

Further, the debt coverage indicators of the company has exhibited deterioration from FY17 level though remained moderate with total debt to GCA of 14.15 times as on March 31, 2018 with interest coverage at 1.80 times during FY18.

Key Rating Weakness

Decline in scale of operations in FY18 with high customer and geographical concentration:

During FY18, Total Operating Income (TOI) of the company declined by around 11% on y-o-y basis to Rs.116.97 crore, owing to lower demand from its established clientele due to subdued market conditions. The income was also lower as the operations were affected by labour strike during FY18 which continued for 50 days. RGIL generates majority of its net sales from Hong Kong and Thailand with top 5 customers contributing around 93% of net sales during FY18 (90% in FY17)

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

thereby indicating high customer concentration as well as low geographical diversification. Further, during 7MFY19, the company has reported net sales of Rs.50.23 crore

Moderate Liquidity:

The average working capital utilization level stood high with almost full utilization during last 12 months ended November, 2018 along with elongated working capital cycle on account of higher collection period as well as higher quantum of raw material inventory that it maintains. As is the case with most gems & jewellery exporters, the company has an elongated operating cycle of 318 days in FY18, though increased from 265 days in FY17, mainly due to increase in average inventory period and average collection period with a decline in scale of operations. Further, the liquidity ratios of the company stood moderate with current ratio at 1.17 times; while quick ratio remained below unity at 0.59 times as on March 31, 2018 due to higher investments in inventory with free cash and bank balance of around Rs.0.10 crore as on March 31, 2018.

Increase in exposure to subsidiary:

The company has increased its exposure (investments and loan advances) in its US based subsidiary, RMC Inc. from Rs.19.89 crore as on March 31, 2017 to Rs.36.67 crore as on March 31, 2018 in order to support operations of its step down subsidiary IGM which is involved in trading of gemstones in US market. Against this, the company had interest bearing unsecured loans of Rs.27.81 crore from promoter group as on same date. Any further increase in exposure to subsidiary will be a key rating sensitivity.

Risk associated with raw material prices and foreign exchange rate fluctuation:

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 79.83% in FY18 (80.15% in FY17) 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, depreciating rupee during FY18 positively impacted the profitability of RGIL.

Presence in highly competitive and unorganised gems and jewellery industry:

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***.***

Outlook on Industry

As per CARE Research the overall domestic gems & jewellery demand is expected to remain tepid for FY19, although the second half is expected to be better than the first. Branding would continue to gain significance. Share of national and regional organized jewellery retailers is expected to grow.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
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, RMC Gems India Ltd. (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. RGIL during FY16 had also entered into 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. (BGJC; rated 'CARE A4+') which is engaged in the same line of business.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	130.97	116.97
PBILDT	16.77	15.53
PAT	7.27	4.73
Overall gearing (times)	1.23	1.37
Interest coverage (times)	2.31	1.80

A: Audited

Status of non-cooperation with previous CRA: None
Any other information: None
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 - ST-EPC/PSC	-	-	-	42.50	CARE A3
Fund-based - ST-Line of Credit	-	-	-	8.50	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 - ST-EPC/PSC	ST	42.50	CARE A3	-	1)CARE A3 (15-Feb-18)	1)CARE A3 (16-Feb-17)	1)CARE A3 (07-Jan-16)
2.	Fund-based - ST-Line of Credit	ST	8.50	CARE A3	-	1)CARE A3 (15-Feb-18)	1)CARE A3 (16-Feb-17)	1)CARE A3 (07-Jan-16)

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