Vaibhav Global Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	133 (enhanced from 120)	**CARE A-; Positive/ CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)**	**Reaffirmed; Outlook revised from Stable**
Short-term Bank Facilities	11	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total facilities	**144.00 (Rupees One Hundred and Forty Four crore Only)**		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) continue to take into account vast experience of the promoters in the manufacturing and retailing of gemstone-studded fashion jewellery and its end-to-end vertically integrated operations along with its comfortable capital structure and debt coverage indicators as well as moderate liquidity position at consolidated level. The ratings also take into account improvement in scale of operations and profitability margins during FY18 (FY refers to the period April 1 to March 31) and Q1FY19.

The ratings, however, continue to be constrained by the risk associated with fluctuation in the foreign exchange rates, susceptibility of its profitability to volatility in the prices of raw materials like gem stones, gold and silver; and geographical concentration of its revenue (mainly dependent on USA and UK).

VGL's ability to increase its scale of operations and profitability margins while maintaining its comfortable capital structure and debt coverage indicators along with efficient working capital management would be the key rating sensitivities.

Outlook: Positive

The outlook for the rating assigned to the bank facilities of VGL has been revised to positive on account of expected improvement in scale of operations along with profitability margins driven by improving customer experience in company's TV and web sales platform. However, the outlook may be revised to 'Stable' in case of insignificant increase in TOI and profitability along with substantial increase in receivables owing to budget pay EMI scheme provided by company to its customers.

Detailed description of key rating drivers

Key rating strengths

Increase in scale of operations and improvement in profitability margins in FY18

VGL's TOI (at consolidated level) grew by around 9% on y-o-y basis to Rs.1577.09 crore in FY18 on account of increase in sales volume along with increase in average sales realisations of its products driven by budget pay EMI scheme being offered to its customer in TV and web platform and higher revenue from wholesale business.

The company focused more on rationalising its user base by removing TV coverage from the region wherein it was getting lower response to the region wherein it expected better response. Due to this reason, the company has been able to increase its sales volume despite lower household coverage. Further, due to better coverage of fixed cost on account of lower broadcasting expenses and better average sales realisation, the company has been able to improve profitability margins in FY18. PBILDT margin of VGL improved by 327 bps on y-o-y basis in FY18; while PAT margin improved by 265 bps in FY18 over last year.

At consolidated level, the company has reported TOI of Rs.390.19 crore with PBILDT and PAT of Rs.40.54 crore and Rs.30.05 crore respectively in Q1FY19. PBILDT margin of VGL improved by 344 bps on y-o-y basis in Q1FY19 on account of re-negotiation of charges with the broadcasters as well as logistic service providers. Furthermore, the company was off-air in one of its TV channel in USA on account of re-negotiation taking place with the broadcaster which also resulted in decline in broadcasting expenses.

End to End vertical integration from sourcing to end customer

VGL operates in mainly two business segments namely, wholesale operations and retail operations. VGL has its manufacturing units at Jaipur and has its subsidiaries as well as step-down subsidiaries at Hong Kong, China, Bali and Thailand for sourcing of products. Further, it has two-step down subsidiaries at USA and UK which operate TV channels

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

and websites. These channels and websites showcase VGL's products to viewers, take orders from customers and then ship the products to the customers. In wholesale operations, VGL, through its Indian operation and through one of its subsidiary sells to discount retailers. Vertical integration and own sourcing arrangements along with own retail sales platform have given cost advantage to the company over its competitors.
Over the years, the company has developed its own brands for fashion jewellery as well as beauty and lifestyle products. Under retail division, VGL reported coverage of around 96 million households (98 million households in FY17) on full time equivalent (FTE) basis in UK and US in home shopping and e-commerce in FY18. Number of repeat purchases by unique customers stood at 19.6 times in FY18 as against 19 times in FY17; while average annual purchase by each customer stood around 28.6 pieces in FY18 as against 27 pieces in FY17.

Comfortable capital structure and debt coverage indicators
The capital structure of VGL (on consolidated basis) stood comfortable on account of healthy accretion of profits to reserves and lower debt level with no long-term debt being outstanding as on March 31, 2018. Debt coverage indicators improved and stood comfortable with total debt to GCA of 0.52 times as on March 31, 2018 on account of healthy cash accruals and lower debt. Furthermore, PBILDT interest coverage also improved to 34.94 times in FY18.

Moderate liquidity position
As VGL's business model (on consolidated basis) is largely business to customer (B2C) sales model with end to end vertical integration, it has to maintain sufficient stock of finished goods apart from raw material inventory used for processing. The operating cycle of the company deteriorated to 84 days in FY18 due to elongation of average collection period as an effect of budget pay EMI scheme. Despite this, the average utilisation of fund based working capital limits stood moderate around 46% during past 12 months ended June 2018. Current ratio improved to 2.86 times as on March 31, 2018. Furthermore, at consolidated level, the company's cash & bank balance (including liquid investments) stood around Rs.78.07 crore as on March 31, 2018 (Rs.77.11 crore as on March 31, 2017).

Wide experience of promoters
The promoter group has longstanding experience in manufacturing and retailing of gemstone-studded fashion jewellery. Mr Sunil Agrawal, Chairman & Managing Director as well as promoter of VGL, has more than 35 years of experience in the Gems and Jewellery business. Mr Rahimullah, Whole time Director, has more than four decades of experience in sourcing of precious stone and has travelled extensively in Africa, Europe and Far East to source rough stones. Over the years, the management has appointed key personnel at different levels to look after important activities.

Key Rating Weaknesses
Susceptibility of profit margins to fluctuation in raw material prices and foreign exchange rates
Gemstones along with diamond, gold, rough stones and silver are the key raw materials for VGL's products. The prices of gold and silver have experienced high volatility in the past. Any adverse change in prices of these commodities and in prices of gemstones will have an adverse impact on VGL's margins.
VGL being a 100% Export Oriented Unit, is also highly susceptible to risk associated with fluctuation in foreign exchange rates. The company's margin is susceptible to the extent of net receivables un-hedged in case of adverse foreign exchange fluctuations. The company gets benefit of natural hedge of foreign exchange risk as part of its purchases of raw materials and almost entire sales of finished products are largely in the same foreign currency; although it would be susceptible to timing differences. Furthermore, the company enters into forward contract in order to hedge foreign exchange fluctuation risk with regard to portion of sell of finished products where natural hedge is not available. On consolidated basis, VGL reported a net foreign exchange gain of Rs.11.59 crore during FY18 (gain of Rs.0.41 crore during FY17).

High dependence on USA and UK markets
Majority of VGL's revenues in FY18 (Consolidated) came from its retail operations which comprises two 24 hour TV channels and websites; one in the US and the other in the UK. Since VGL generates majority of its revenues and profits from its subsidiaries which operate TV channels and websites in US and UK, its prospects are intricately linked to the economic scenario prevailing in those markets. Economic environment in these two countries has remained challenging in the past, although the same has shown some improvement in the recent past.
As per provisional data released by Gems and Jewellery Export Promotion Council (GJEPC), India's exports of gems and jewellery declined by 7.76% in FY18 to USD 32,714.01 million. Exports of Coloured Gemstones grew marginally by 3.14% in FY18 over last year to USD 433.31 million; while other exports (such as pearls, synthetic stones, costume and fashion jewellery, etc.) increased by 59.03% in FY18 over last year.
Growth in US retail industry is likely to come from a strong labour market, low unemployment, rising real disposable personal income, low inflation, rising house prices and tax cuts. Furthermore, with the expectation of reduction in inflation rate in UK, increase in wage growth and easing of pressure on consumers' disposable income, UK retail industry is slated for better growth.

Going forward, larger integrated players with strong sourcing relationships with better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy; are likely to exhibit more stable credit profiles.

Analytical Approach: Consolidated
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing companies
Rating Methodology-Retail Companies
Factoring Linkages

About the Company
VGL, erstwhile Vaibhav Gems Ltd., was incorporated on May 08, 1989 and name of the company was changed to its present name in FY13. VGL is a 100% Export Oriented Unit (EOU) having manufacturing set-up for gemstone studded jewellery at Sitapura, Jaipur. VGL manufactures gemstone studded jewellery primarily made of silver and other metals. The company over the years has developed its supply chain infrastructure which includes manufacturing facilities at Jaipur and direct procurement from various micro markets. In wholesale operations, VGL, through its Indian operation and through its subsidiary STS Jewels Inc., USA, sells to discount retailers. In retail operations, VGL operates two 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. Further, VGL operates e-commerce websites in US (www.shoplc.com) and UK (www.tjc.co.uk) which complement the company's TV coverage, while diversifying customer engagement. These channels and websites showcase VGL's products, which largely include low end fashion jewellery as well as beauty and other lifestyle products, to viewers, take orders from customers and then ship the products to the customers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1442.75	1577.09
PBILDT	90.20	150.11
PAT	64.58	112.47
Overall gearing (times)	0.22	0.13
Interest coverage (times)	14.08	34.94

A: Audited

Status of non-cooperation with previous CRA: None
Any other information: None
Rating History for last three years: Please refer Annexure-2
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
Non-fund-based - ST-BG/LC	-	-	-	5.00	CARE A2+
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	133.00	CARE A-; Positive / CARE A2+
Fund-based - ST-Standby Line of Credit	-	-	-	6.00	CARE A2+

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.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (27-Jul-15)
2.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2+	-	1)CARE A2+ (05-Sep-17)	1)CARE A2 (22-Aug-16)	1)CARE A2 (30-Nov-15) 2)CARE A2 (27-Jul-15)
3.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	133.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Sep-17)	1)CARE BBB+ / CARE A2 (22-Aug-16)	1)CARE BBB+ / CARE A2 (30-Nov-15) 2)CARE A2 (27-Jul-15)
4.	Fund-based - ST-Standby Line of Credit	ST	6.00	CARE A2+	-	1)CARE A2+ (05-Sep-17)	-	-

CARE Ratings Professional Risk Opinion

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