Vaibhav Global Limited

November 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	139.00	**CARE A-; Positive/ CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)**	**Reaffirmed**
Short-term Bank Facilities	5.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total facilities	**144.00 (Rupees One Hundred and Forty Four crore only)**		

Details of instruments/facilities in Annexure-1; Short term rating assigned to Export Gold Card limit has been withdrawn as the said facility has been withdrawn as per e-mail confirmation from the respective lender

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) continue to take into account the vast experience of its promoters in the manufacturing of gemstone-studded fashion jewellery and its end-to-end vertically integrated operations. The ratings further take into account steady growth in its total operating income (TOI) along with its comfortable capital structure as well as debt coverage indicators, moderate operating profitability margins and adequate liquidity.

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; moderate operating cycle, increasing bad debt write-off and geographical concentration of its revenue (mainly dependent on USA and UK markets) with susceptibility to economic slowdown.

Key rating sensitivities

Positive factors:

- Substantial growth in its TOI through greater geographical diversification of its revenue along with improvement in its operating profitability (PBILDT) margins beyond 15% on a sustained basis
- Reduction in gross operating cycle (average debtor plus inventory period) below 60 days on sustained basis
- Maintaining of comfortable capital structure as well as debt coverage indicators on consolidated basis while further improving liquidity on standalone level

Negative factors:

- PBILDT margin falling below 10% on sustained basis
- Any major debt funded capex resulting to deterioration in capital structure with overall gearing moderating beyond 0.50 times
- Significant increase in receivable/inventory level or bad debts affecting profitability and cash flows
- Significant deterioration in liquidity position at standalone level
- Any regulatory changes or slowdown in key markets (USA and UK) impacting the business of the company at consolidated level

Outlook: Positive

The outlook for the rating assigned to the bank facilities of VGL is positive on account of expected growth in its scale of operations along with improvement in profitability margins driven by improving retail sales volume and improvement in receivables position. However, the outlook may be revised to 'Stable' in case of moderation or marginal growth in TOI and profitability along with substantial increase in bad debts or receivables owing to budget pay EMI scheme provided by company to its customers.

Detailed description of the key rating drivers

Key rating strengths

Steady increase in total operating income along with moderate operating profitability margins

VGL's TOI (at consolidated level) grew by around 16% on y-o-y basis to Rs.1818.31 crore in FY19 (refers to the period April 1 to March 31) on account of increase in sales volume which was supported by budget pay scheme and higher customer engagement. Sales through budget pay EMI scheme constituted around 35% of TOI during FY19 as against 31% during FY18.

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

The same was also supported by increase in overall average sales realisation in retail segment which contributed around 92% to the net sales for FY19 at consolidated level. The company's mainstream product line is low cost gemstone studded jewellery which accounted for around 84% (88% in FY18) of its TOI at consolidated level in FY19 while revenue from lifestyle products/accessories constituted around 15% (11% in FY18) of TOI in FY19.
PBILDT margin, although improved marginally on account of better economies of scale, stood at a moderate level of 11.42% in FY19 due to higher employee expenses and bad debt write-off.
As per consolidated un-audited results for H1FY20, the company has reported TOI of Rs.932.11 crore with PBILDT margin and PAT margin of 14.25% and 10.02% respectively as against TOI of Rs.847.81 Crore with PBILDT margin and PAT margin of 12.12% and 8.63% respectively in H1FY19. The increase in TOI was also supported by higher revenue from sale through budget pay EMI which constituted around 36% of TOI in H1FY20 as against 34% in H1FY19.
The TOI of the company at standalone level grew marginally by around 3% on y-o-y basis to Rs.484.43 crore in FY19 on account of marginal increase in sale of jewellery products. PBILDT margin improved by 60 bps on y-o-y basis to 9.06% in FY19 on account of lower raw material consumed cost.

Comfortable capital structure and debt coverage indicators
The capital structure of VGL (on consolidated basis) stood comfortable on account of healthy accretion of profit to reserves and lower debt level as on March 31, 2019. Overall gearing stood around 0.10 times as on March 31, 2019 as against 0.13 times as on March 31, 2018. Debt coverage indicators stood comfortable with total debt to GCA of 0.33 times as on March 31, 2019 as against 0.52 times as on March 31, 2018, it improved on account of healthy cash accruals. Furthermore, PBILDT interest coverage also improved from 34.94 times in FY18 to 44.57 times in FY19 due to improvement in operating profitability.
Capital structure of the company at standalone level stood comfortable with overall gearing of 0.12 times as on March 31, 2019. PBILDT interest coverage moderated though the same stood comfortable around 11.21 times in FY19 on account of increase in finance expenses. Total debt to GCA improved from 2.05 times as on March 31, 2018 to 1.84 times as on March 31, 2019 on account of higher profitability.

Wide experience of promoters in Gems & Jewellery business
The promoter group has longstanding experience in gems and jewellery business. Mr Sunil Agrawal, Managing Director as well as promoter of VGL, has more than 35 years of experience in the Gems and Jewellery business. He is supported by other directors who have relevant experience in the industry. Over the years, the management has appointed experienced professionals at different levels to look after various functions of the company.

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, websites and mobile apps. 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; while under retail operations, VGL operates two 24 hour TV channels on all the major cable, satellite and DTH platforms and two e-commerce websites as well as mobile apps which complement the company's TV coverage.
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 100 million households (97 million households in FY18) on full time equivalent (FTE) basis in UK and US in home shopping and e-commerce in FY19. Number of repeat purchases by unique customers stood at 19.8 times in FY19 as against 19.6 times in FY18; while average annual purchase by each customer stood around 30 pieces in FY19 as against 28.6 pieces in FY18.

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 gems and jewellery 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. The company sources gold, silver and platinum from trading houses such as Metals & Minerals Trading Corporation (MMTC) on cash basis while it procures gemstones and roughs from local as well as overseas vendor and also through participating in auctions organised by mining companies. The company regularly participates in the auction organised by Kagem Mining Limited and Gemfields Limited for procurement of gemstones.
VGL being a 100% Export Oriented Unit, is also highly susceptible to risk associated with fluctuation in foreign exchange rates. The company's profitability margin is susceptible to the extent of net receivables un-hedged in case of any adverse foreign

exchange fluctuations. Further, the company avails working capital borrowings from banks in foreign currencies which are also exposed to foreign exchange fluctuation risk. The company gets benefit of natural hedge of foreign exchange to some extent as part of its purchases of raw materials as well as working capital borrowings and almost entire sales of finished products are largely in the foreign currency; although it would be susceptible to timing differences. The company used to hedge its foreign currency exposure by entering into forward contract; however, the company is not hedging its foreign currency receivables/payables currently. On consolidated basis, VGL reported a net foreign exchange gain of Rs.5.94 crore during FY19 (Rs.11.59 crore during FY18). Significant fluctuation in exchange rates can impact profitability of the company adversely.

High dependence on USA and UK markets
Majority of VGL's revenues in FY19 (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 in US and UK, its prospects are intricately linked to the economic scenario prevailing in those markets. Consequently, its operations are susceptible to economic slowdown in its key markets as the same can have an adverse impact on consumer demand. The proportion of online retailing in VGL's key markets i.e. US and UK has grown during calendar year 2018 over 2017. As per provisional data released by Gems and Jewellery Export Promotion Council (GJEPC), India's exports of gems and jewellery declined by 5.32% in FY19 to USD 30961.64 million. Exports of coloured gemstones declined by 8.20% in FY19 over last year to USD 396.89 million; while, exports of costume and fashion jewellery grew by 4.88% in FY19 over last year to USD 67.49 million.
VGL's operations at US and UK are subject to strict laws and regulations applicable to video and e-commerce business. Furthermore, the video and e-commerce retail business is highly competitive, and VGL faces direct competition from different retailing formats in US and UK market. In video and digital retail business, the company faces competition from few large players. However, VGL's focus is largely fashion jewellery, accessories as well as beauty and lifestyle products while other players have varied line of products which makes them relatively larger player. Despite being relatively smaller player, VGL is benefitted on account of its vertically integrated model which helps in earning better profitability.

Increase in bad debts
During FY19, the company has written off bad debts of around Rs.10.00 crore and created provision for doubtful debts of Rs.1.04 crore during FY19 as against Rs.1.75 crore and Rs.6.72 crore respectively in FY18. The bad debts write off/provision created is around 5.32% (5.64% in FY18) of operating profitability and around 2% (2% in FY18) of total sales under budget pay during FY19. The bad debt / provision for doubtful debts further increased to Rs.15.33 crore during H1FY20 as against Rs.5.54 crore in H1FY19. The bad debts write-off/provision created is around 12.35% (5.57% in H1FY19) of operating profitability. Any significant increase in these bad debt write off or increase in receivable levels can adversely impact the profitability and liquidity of the company; consequently the same remains a key rating sensitivity.

Liquidity: Adequate
Liquidity position of VGL is adequate marked by healthy cash accruals against no long term debt repayment obligations. The same is also supported by low gearing as on March 31, 2019 and no debt funded capex plan in near future. Its unutilized bank lines with average utilisation of fund based working capital limits being 30% during past 12 months ended September 2019 are adequate to meet its incremental working capital needs over the next one year. The liquidity position of the company is also supported by adequate free cash and bank balance which stood around Rs.102.17 crore at standalone level and Rs.283.37 crore at consolidated level as on September 30, 2019. The company has announced buy back of equity shares of which partial buy back has been done up to September 30, 2019.
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 gross operating cycle of the company stood at 120 days in FY19 which is relatively elongated level. At consolidated level, the company's inventory level has increased moderately as on March 31, 2019 on y-o-y basis, though the same can be attributed to growing scale of operations. Reduction in gross operating cycle on a sustained basis would be a key rating sensitivity. Current ratio improved from 2.87 times as on March 31, 2018 to 3.28 times as on March 31, 2019 at consolidated level. Net cash flow from operating activities was around Rs.198.88 crore during FY19 at consolidated level.
Majority of retail sales of the company are on cash basis (credit card payments) which provides adequate liquidity support to the company. However, the company has started budget pay EMI scheme with product return option under which it allows its customers to pay in 2 or 3 instalment (in few products- 4 or 5 instalment) with one getting paid immediately and remaining amount getting paid in monthly instalment as per number of instalment offered. As on March 31, 2019, receivables from sale under budget pay EMI scheme stood around Rs.78.89 crore (12% of total budget pay sale) as against Rs.62.08 crore (13% of total budget pay sale) as on March 31, 2018. However, the bad debts written off/provision created is around 5.32% (5.64% in FY18) of operating profitability and around 2% (2% in FY18) of total sales under budget pay during

FY19. Any significant increase in these write off levels or increase in receivables can impact liquidity position at consolidated as well as standalone level which would be a key rating sensitivity.

Industry outlook

The US economy is likely to continue to grow although at a moderate rate in 2019. Recent tariff increases and associated retaliatory actions are expected to weigh on economic activity. However, governments support by more accommodative monetary policy and strong labour market with low unemployment, rising real disposable personal income are expected to support the retail demand.
UK's economy growth is expected to remain modest in 2019. This is due to expected slower real consumer spending growth and the drag on business investment from on-going economic and political uncertainty relating to the outcome of the Brexit negotiations. Concerns about the implications of Brexit, expected slower job growth and expected gradual rise in interest rates is expected to result in moderate growth in retail spending. However, considering the increasing proportion of online sales in total retail sales, online sales are likely to become a more important part of consumer spending in the long term.

Analytical Approach: Consolidated. The company has operational synergies with its subsidiaries and hence consolidated approach has been considered. List of subsidiaries and step-down subsidiaries has been attached as **Annexure- 3**.

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Factoring Linkages in Ratings
Rating methodology- Retail
Financial ratios – Non-Financial Sector

About the Company

VGL was incorporated on May 08, 1989. VGL is a 100% Export Oriented Unit (EOU) having manufacturing set-up for gemstone studded jewellery at Sitapura, Jaipur along with diamond sourcing and manufacturing unit at Mumbai. VGL manufactures low cost gemstone studded jewellery primarily made of silver and other metals. Over the past, the company has changed its business model by shifting from high-end jewellery to low-end jewellery and has also started sale of beauty products, fashion accessories and lifestyle products like stylish watches, hair accessories like hair bands & clips, handbags, ladies scarves, bed linens, pillow covers and home décor products. The company over the years has developed its supply chain infrastructure which includes manufacturing facilities at India and direct procurement from various micro markets including India, China, Thailand and Indonesia. VGL operates in mainly two business segments namely, wholesale operations and retail operations. 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. Furthermore, 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 to viewers, take orders from customers and then ship the products to the customers. The company has also developed mobile application for enhancing customer shopping experience. Presently, VGL has 5 direct subsidiaries and 4 wholly owned step-down subsidiaries.

Brief Financials - Consolidated (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1572.45	1818.31
PBILDT	150.22	207.58
PAT	112.47	154.17
Overall gearing (times)	0.13	0.10
Interest coverage (times)	34.97	44.57

A: Audited

As per consolidated un-audited results for H1FY20, VGL reported a PAT of Rs.84.97 crore (H1FY19: Rs.69.20 crore) on a TOI of Rs.932.11 crore (H1FY19: Rs.847.81 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
Non-fund-based - ST-BG/LC	-	-	-	5.00	CARE A2+
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	139.00	CARE A-; Positive / CARE A2+
Fund-based - ST-Standby Line of Credit	-	-	-	0.00	Withdrawn

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.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2+	-	1)CARE A2+ (24-Aug-18)	1)CARE A2+ (05-Sep-17)	1)CARE A2 (22-Aug-16)
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	139.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Positive / CARE A2+ (24-Aug-18)	1)CARE A-; Stable / CARE A2+ (05-Sep-17)	1)CARE BBB+ / CARE A2 (22-Aug-16)
3.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)CARE A2+ (24-Aug-18)	1)CARE A2+ (05-Sep-17)	-

Annexure-3: List of subsidiaries and step-down subsidiaries has been presented below-

Name of the entity	% shareholding (As on March 31, 2019)
Direct subsidiaries	
Genoa Jewelers Limited	100%
STS Gems Japan Limited	100%
STS Gems Limited	100%
STS Gems Thai Limited	100%
STS Jewels Inc., USA	100%
Step-down subsidiaries	
The Jewellery Channel Limited, UK	100% subsidiary of Genoa Jewelers Limited
Shop LC Global Inc., USA (Erstwhile, The Jewellery Channel Inc., USA)	100% subsidiary of Genoa Jewelers Limited
Pt. STS Bali, Indonesia	100% subsidiary of STS Gems Limited
STS (Guangzhou) Trading Limited^	100% subsidiary of STS Gems Limited

^Incorporated during FY19

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.*

Contact us

Media Contact
Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Harsh Raj Sankhla
Contact no.: +91-141-4020213/14
Email ID: harshraj.sankhla@careratings.com

Relationship Contact
Nikhil Soni
Contact no.: +91-141-4020213/14
Email ID: nikhil.soni@careratings.com

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