Vaibhav Global Limited
November 20, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term / Short Term Bank Facilities	153.00	**CARE A-; Positive / CARE A2+ (Single A Minus ; Outlook: Positive/ A Two Plus)**	**Reaffirmed; Outlook revised from Stable**
Short Term Bank Facilities	3.00	**CARE A2+ (A Two Plus)**	**Assigned**
Short Term Bank Facilities	2.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Bank Facilities	**158.00 (Rs. One Hundred Fifty-Eight Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Vaibhav Global Limited (VGL) continue to derive strength from 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 improvement in profitability margins, comfortable capital structure and debt coverage indicators as well as its adequate liquidity.

The ratings, however, continue to remain constrained by susceptibility of its profitability to volatility in the prices of raw materials like gem stones, gold and silver; geographical concentration of its revenue (mainly dependent on USA and UK markets) with susceptibility to economic slowdown and intense competition, its moderate operating cycle, risk related to bad debt/write-off with regard to sales under budget pay EMI scheme and the risk associated with fluctuation in foreign exchange rates. The ratings also factor continuing spread and recent rise in infections arising from Covid-19 pandemic which has given rise to uncertain scenario.

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 improving liquidity at standalone level

Negative factors:

- PBILDT margin falling below 10% on sustained basis
- Any major debt funded capex or stretch in working capital resulting to deterioration in its capital structure with overall gearing moderating beyond 0.50 times
- Significant increase in receivable/inventory level or bad debts affecting cash flows and profitability
- Significant deterioration in liquidity at standalone level
- Any regulatory changes or slowdown in key markets (USA and UK) impacting the business of the company at consolidated level
- Any adverse outcome of the proceedings of Income Tax Department for AY2012-13 resulting in significant outflow of income tax liability

Outlook: Positive

The revision in the outlook from 'Stable' to 'Positive' is mainly on account of expected improvement in its scale of operations along with profitability driven by improving retail sales volume despite disruption caused due to outbreak of covid-19 pandemic. However, the outlook may be revised to 'Stable' in case of moderation or marginal growth in total operating income (TOI) and profitability along with substantial increase in bad debts or receivables owing to budget pay EMI scheme provided by company to its customers and significant reduction in liquidity in standalone operations.

Detailed description of the key rating drivers

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

Key Rating Strengths

Steady increase in total operating income with improvement in profitability margins

VGL's total operating income (TOI) at consolidated level grew by around 10% on y-o-y basis to Rs.1992.24 crore in FY20 on account of steady demand from USA and UK market. Revenue from sales through budget pay EMI scheme grew by around 18% on y-o-y basis to Rs.753.06 crore in FY20 and the same constituted around 39% (38% in FY19) of retail revenue in FY20. Web sales volume of the company grew by around 17% on y-o-y basis in FY20 while TV sales volume moderated by around 3% during the same period. Revenue from B2B business moderated further and the same constituted around 3% of TOI in FY20 as against 8% of TOI in FY19 largely due to increasing focus of company towards retail segment.

The profitability margins of VGL improved on account of better economies of scale as higher scale of operations contributed to higher absorption of fixed costs. PBILDT margin at consolidated level improved by 201 bps on y-o-y basis to 13.43% in FY20 on account of better economies of scale. Resultantly, PAT margin at consolidated level also improved by 107 bps on y-o-y basis to 9.55% in FY20.

As per consolidated un-audited results for H1FY21, the company has reported TOI of Rs.1156.36 crore with PBILDT margin and PAT margin of 15.26% and 10.67% respectively as against TOI of Rs.932.11 crore with PBILDT margin and PAT margin of 13.33% and 9.12% respectively in H1FY20. The company reported 33% growth in retail sales volume in H1FY21 on y-o-y basis while average sales realisation declined marginally by 2% during the same period. PBILDT margin improved mainly on account of better economies of scale with growing scale of operations.

The net sales of the company at standalone level moderated by around 11% on y-o-y basis to Rs.422.68 crore in FY20 largely on account of decline in B2B sales revenue i.e. revenue from wholesale revenue with growing focus towards sale to its retail business at US and UK. TOI of the company grew by around 11% to Rs.539.25 crore despite lower net sales during FY20 vis-à-vis FY19 largely on account of receipt of dividend from subsidiary. The PBILDT margin (after excluding dividend income) stood around 8.15% in FY20 as against 9.06% in FY19 mainly on account of lower decline in operating and administration expenses vis-à-vis scale of operations. Further, PAT margin (excluding dividend) stood around 5.32% in FY20 as against 6.81% in FY19.

As per standalone un-audited results for H1FY21, the company has reported TOI of Rs.198.79 crore with PBILDT margin and PAT margin of 8.82% and 6.51% respectively as against TOI of Rs.218.26 crore with PBILDT margin and PAT margin of 10.49% and 7.67% respectively in H1FY20. The decline in TOI during H1FY21 can be mainly attributed to disruption caused on account of Covid-19 which impacted its performance during Q1FY21. The manufacturing operation at standalone level was stopped due to outbreak of covid-19 from March 22, 2020 which was resumed from April 27, 2020. However, VGL's retail business at US and UK was allowed to operate during outbreak of covid-19.

Comfortable capital structure and debt coverage indicators

The capital structure of VGL (on consolidated basis) stood comfortable on account of healthy net-worth base (despite buyback of some shares) and lower debt level as on March 31, 2020. Overall gearing stood around 0.14 times as on March 31, 2020 as against 0.10 times as on March 31, 2019.

Debt coverage indicators stood comfortable with total debt to GCA of 0.47 times as on March 31, 2020 as against 0.33 times as on March 31, 2019. PBILDT interest coverage also stood comfortable at around 30.94 times in FY20 despite moderation from 44.57 times in FY19 on account of higher interest expenses.

At standalone level also, capital structure of the company stood comfortable with overall gearing of 0.12 times as on March 31, 2020. Total debt to GCA improved from 1.84 times as on March 31, 2019 to 0.49 times as on March 31, 2020 aided by receipt of dividend income from its foreign subsidiary.

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 nearly four decades 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 it has 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 TV coverage of around 99.16 million households (101.2 million households in FY19) on full

time equivalent (FTE) basis in UK and US in FY20. New registration in e-com websites stood around 1,78,000 during FY20 as against 1,80,000 during FY19.
On account of strong sourcing arrangements, VGL has been able to report growth in revenue from non-jewellery products. VGL has launched new product categories under home and lifestyle accessories and has also launched essential products like health supplements, sanitizers, gloves, mask etc. considering the covid-19 pandemic which have also contributed to growth in revenue from non-jewellery product segment in FY20 and H1FY21. Contribution of non-jewellery products in TOI has increased from around 20% in FY19 to 22% in FY20 and further to 32% in H1FY21.

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 through participating in auctions organised by mining companies.
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/payables un-hedged in case of any adverse foreign exchange fluctuations. The company avails working capital borrowings from banks in foreign currencies. 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. On consolidated basis, VGL reported foreign exchange gain of Rs.8.92 crore during FY20 (Rs.5.94 crore during FY19) while it reported foreign exchange loss on borrowings in foreign currency of Rs.3.88 crore (Rs.1.40 crore during FY19). Significant fluctuation in exchange rates can impact profitability of the company adversely.

Geographical concentration of its revenue (mainly dependent on USA and UK markets) with susceptibility to economic slowdown considering the pandemic scenario
Majority of VGL's revenues in FY20 (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. Both these key economies i.e. US and UK have reported slowdown in the recent past post outbreak of covid-19 pandemic. In the past VGL had incurred heavy losses in its foreign subsidiaries and even had to undergo corporate debt restructuring (CDR). Subsequently, the company changed its business model which led to improvement in its performance and exit from CDR. The proportion of online retailing in VGL's key markets i.e. US and UK has grown during calendar year 2019 over 2018, which is expected to provide greater stability to its business prospects.

Intense competition with operations susceptible to strict laws and regulations
VGL's operations in 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 including television shopping and e-commerce retailers, traditional brick and mortar stores, discount stores, warehouse stores and speciality stores; catalog and mail order retailers 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. VGL would need to continuously improve, upgrade, adapt and expand technology systems and infrastructure to offer value to its customers with enhanced customer experience in a cost-efficient and competitive manner.

Risk of bad debts
The company has started budget pay EMI scheme with product return option since past few years under which it allows its customers to pay in 2 or 3 instalments (4 to 5 instalments in some cases) with one getting paid immediately and remaining amount getting paid in monthly instalment as per number of instalment offered. As on March 31, 2020, receivables from sale under budget pay EMI scheme stood around Rs.125.18 crore (16.62% of total budget pay sale) as against Rs.78.89 crore (12.36% of total budget pay sale) as on March 31, 2019 depicting increase in budget pay sale debtor level with increase in budget pay sales. During FY20, the company had written off bad debts/created provision for bad debts of around Rs.11.25 crore as against Rs.11.04 crore in FY19. The bad debts written off/provision created with regard to budget pay sale was 1.19% of budget pay sales in FY20 as against 1.43% in FY19. The total bad debts (including b2b business bad debts) written

off/provision for bad debts was 0.57% of net sales in FY20 (0.61% in FY19) and 0.77% in H1FY21 (0.86% in H1FY20). 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.

Industry outlook

In FY20, all 12 months witnessed yearly fall in growth of gross exports of gems and jewellery from India. In FY20, it declined by 10% YoY to USD 35,531 mn. Key commodities such as cut and polished diamonds, rough diamonds, gold medallions and coins, coloured gemstones witnessed declining exports demand. However, other items such as gold jewellery, silver jewellery, polished lab grown diamonds, articles of gold, silver and others witnessed positive growth for cumulative 12 months of FY20.

The outbreak of Covid-19 pandemic is likely to negatively impact the economies of both USA and UK. As per the International Monetary Fund (IMF), growth in the advanced economy group where in several economies are experiencing widespread outbreaks of the virus is projected to be -5.8% in CY2020. Most economies in the group are forecasted to contract this year, including the United States (-4.3%) and the United Kingdom (-9.8%).

As per bureau of economic analysis, US economy GDP contracted by 5% during Q1CY20 over preceding period and has further contracted by 31.7% in Q2CY20 over preceding period. The U.K. economy contracted by 20.4% in Q2CY20, compared to the previous three months (data as per ons.gov.uk). A sharp decline in consumer spending in the European countries and the USA would reduce imports of consumer goods from developing countries. Moreover, recent rise in infections and imposition of lockdown (in UK) coupled with high unemployment in these countries has given rise to an uncertain scenario. However, the US and UK Governments have announced large stimulus packages, which also include providing income support to households most affected by the pandemic, to avert a sharp downturn of their economies which have supported the consumer spending. Going forward, considering the continuing spread of covid-19 pandemic, Governments support by way of more accommodative monetary policy as well as additional stimulus packages and improvement in labour market are crucial to support the retail demand in VGL's key markets.

Income Tax demand notice

VGL has received order for scrutiny under sections 147/148 of Income Tax Act wherein the Income Tax department had asked for submission of certain information and documents with regard to Assessment Year (AY) 2012-13 on the basis of search conducted by IT department at premises of different business groups. Subsequently, VGL obtained a stay on the said proceedings from Honourable High Court of Rajasthan in December 2019. Furthermore, VGL's management has articulated that as per legal opinion available with them, the likelihood of crystallization of any major income tax liability on this count is remote. However, if any major IT liability falls upon the company then it can have an adverse impact on its liquidity and credit profile. Hence, the final outcome of the notice raised on VGL by the IT department would remain a key monitorable.

Liquidity: Adequate

Liquidity position of VGL is adequate characterized by sufficient cushion in accruals vis-à-vis debt repayment obligations and healthy cash and bank balance (including liquid investments) of Rs.37.57 crore at standalone level and around Rs.308 crore at consolidated level as on September 30, 2020. The cash and bank balance (including liquid investments) at standalone level have witnessed moderating trend from Rs.198.30 crore as on March 31, 2019 to Rs.83.73 crore as on March 31, 2020 and further to Rs.37.57 crore as on September 30, 2020. At standalone level, the company reported negative cash flow from operating activities of around Rs.36 crore during FY20 and around Rs.17 crore for the half year ended September 30, 2020. However, cash and bank balance (including liquid investments) at consolidated level increased from Rs.243.96 crore as on March 31, 2019 to Rs.257.11 crore as on March 31, 2020 and further to Rs.308 crore as on September 30, 2020. At consolidated level, the company reported cash flow from operating activities of around Rs.216 crore during FY20 and around Rs.82 crore for the half year ended September 30, 2020. The foreign subsidiary has declared dividend to the tune of Rs.104.23 crore during FY20 and Rs.9.34 crore during H1FY21 to VGL (Standalone). Its capex requirements are modular and are expected to be funded through internal accruals. The average utilisation of fund based working capital limit stood around 52% during past 12 months ended September 2020. The company has not availed any moratorium under the RBI's Covid-19 relief package and has been servicing its debt obligations as per schedule.

The operating cycle of the company stood at 92 days in FY20 as against 94 days in FY19. As VGL's business model (on consolidated basis) is largely business to customer (B2C) sales model, the company needs to maintain optimum inventory level of around 3 months (raw material for manufacturing at standalone level). The company at consolidated level also maintains optimum finished goods inventory level as it needs to deliver the clients generally within 3-4 business days once orders are placed online. Majority of retail sales of the company are on cash basis (credit card payments) which provides adequate liquidity support to the company. Current ratio stood around 2.85 times as on March 31, 2020 as against 3.28 times as on March 31, 2019.

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- 5**.

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- Consolidation
Rating methodology- Retail
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial Sector Entities

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.

Brief Financials - Consolidated (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	1818.31	1992.24
PBILDT	207.58	267.59
PAT	154.17	190.26
Overall gearing (times)	0.10	0.14
Interest coverage (times)	44.57	30.94

A: Audited

As per consolidated un-audited results for H1FY21, VGL reported PAT of Rs.123.43 crore (H1FY20: Rs.84.97 crore) on TOI of Rs.1156.36 crore (H1FY20: Rs.932.11 crore).

Brief Financials – Standalone (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	484.43	539.25
PBILDT	43.88	139.71
PAT	32.97	127.37
Overall gearing (times)	0.12	0.12
Interest coverage (times)	11.21	21.49

A: Audited

As per standalone un-audited results for H1FY21, VGL reported PAT of Rs.12.94 crore (H1FY20: Rs.16.73 crore) on TOI of Rs.198.79 crore (H1FY20: Rs.218.26 crore).

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer **Annexure-2**
Covenants of rated instrument/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in* **Annexure-3**

Complexity level of various instruments rated for this company: **Annexure 4**

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-Bank Guarantees	-	-	-	2.00	CARE A2+
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	153.00	CARE A-; Positive / CARE A2+
Non-fund-based - ST-Forward Contract	-	-	-	3.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A2+	1)CARE A2+ (29-Apr-20)	1)CARE A2+ (13-Nov-19)	1)CARE A2+ (24-Aug-18)	1)CARE A2+ (05-Sep-17)
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	153.00	CARE A-; Positive / CARE A2+	1)CARE A-; Stable / CARE A2+ (29-Apr-20)	1)CARE A-; Positive / CARE A2+ (13-Nov-19)	1)CARE A-; Positive / CARE A2+ (24-Aug-18)	1)CARE A-; Stable / CARE A2+ (05-Sep-17)
3.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (13-Nov-19)	1)CARE A2+ (24-Aug-18)	1)CARE A2+ (05-Sep-17)
4.	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A2+	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- N/A

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Forward Contract	Simple

Annexure-5 List of subsidiaries and step-down subsidiaries has been presented below-

Name of the entity	% shareholding (As on March 31, 2020)
Direct subsidiaries	
VGL Retail Ventures Limited	100%
STS Gems Japan Limited	100%
STS Gems Limited	100%
STS Gems Thai Limited	100%
STS Jewels Inc., USA	100%
Step-down subsidiaries	
Shop TJC Limited, UK	100% subsidiary of VGL Retail Ventures Limited (Erstwhile, Genoa Jewelers Limited)
Shop LC Global Inc., USA	100% subsidiary of Shop TJC Limited
Pt. STS Bali, Indonesia	100% subsidiary of STS Gems Limited
STS (Guangzhou) Trading Limited	100% subsidiary of STS Gems Limited

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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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