

## ZEE Gold DMCC <sup>(Revised)</sup>

July 23, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	75.00	CARE BB+ (CE); Stable [Double B Plus (Credit Enhancement); Outlook: Stable]	Assigned
<b>Total Facilities</b>	<b>75.00<sup>@</sup></b> <b>(Rs. Seventy five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

<sup>@</sup>Backed by unconditional & irrevocable corporate guarantee provided by Shirpur Gold Refinery Limited

<b>Unsupported Rating<sup>2</sup></b>	<b>CARE B+; Stable (Single B Plus; Outlook: Stable)</b>
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### Detailed Rationale & Key Rating Drivers

#### **(i) Ratings based on unconditional & irrevocable corporate guarantee provided by Shirpur Gold Refinery Limited**

The rating assigned to the bank facilities of Zee Gold DMCC (ZGD) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Shirpur Gold Refinery Limited (SGRL; rated CARE BB+; Stable/CARE A4+) for the bank facilities of ZGD.

The rating assigned to the bank facilities of Shirpur Gold Refinery Limited (SGRL) factors in weakening of the debt protection metrics and liquidity position of the company at the consolidated level, its low profitability margins, high leverage, exposure to volatility in gold prices and forex movement, seasonality in demand for gold and highly regulated industry structure. The ratings also factor the increased exposure of SGRL in group companies. The performance of the business operations of SGRL's subsidiaries and consequent impact on the overall SGRL group will be a key rating monitorable.

The ratings, however, derive strength from its experienced promoter group, established position of SGRL in gold refining business, accreditation from TÜV Rheinland Cert GmbH of ISO-9001 and ISO/IEC 17025: 2005 from National Accreditation Board for Testing and Calibration Laboratories (NABL) which helps SGRL to place its products better in the highly competitive market as well as acquisition of gold mines by Zee Gold DMCC, Dubai - wholly owned subsidiary of SGRL resulting in captive sourcing of raw material at competitive rates.

The ability of SGRL to strengthen its capital structure, improve the profitability margins considering competitive market scenario and timely receipt of the insurance claim against the gold robbery comprise of the key rating sensitivities.

#### **(ii) Unsupported rating**

The rating assigned to the bank facilities of ZGD factors in weak debt protection metrics and liquidity position of the company, its low profitability margins, high leverage, exposure to volatility in gold prices, seasonality in demand for gold and highly regulated industry structure.

The ratings, however, derive strength from its experienced promoter group & management and established position of SGRL in gold refining business. Further acquisition of gold mines which would result in captive sourcing of raw material at competitive rates.

The ability of ZGD to strengthen its capital structure and improve the profitability margins considering competitive market scenario comprise of the key rating sensitivities.

### Detailed description of the key rating drivers

#### **(i) Ratings based on unconditional & irrevocable corporate guarantee provided by Shirpur Gold Refinery Limited**

#### **Key Rating Weaknesses**

##### **Weak liquidity profile**

SGRL's overall profitability though meagre has been improving. Thus the cash accrual generated by the group is sufficient enough to service the debt obligations. In addition the company has cash & bank balance of Rs.81.22 crore (of which Rs.35.11

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

<sup>2</sup>As stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019

crore has been kept as margin money). Further the company has been utilizing its fund based limits on an average 76% and non-fund based limits on an average 94% for twelve months ending May 2019. Thus the overall liquidity position of the company stands weak.

#### ***Working capital intensive nature of operations***

The principal business of SGRL is refining of gold and manufacturing products viz. gold coins of varied denominations and purities, gold jewelry and gold bars of different purities as per market demand. Subsequently, the finished products are marketed throughout the country by its network of dealers. The manufactured products viz. gold coins & bars are marketed under the brand name ZEE Gold, which further helps SGRL to place their products in the highly competitive market. Currently, SGRL procures dore by opening LCs, hence it has a high dependence on working capital finance to support inventory (imports). Thus average non-fund based utilization stood around 94% for the twelve months ending May 2019. SGRL hedges the gold quantity on MCX as it imports dore. The purity levels are specified by the supplier before importing dore which is confirmed by testing the sample in laboratory. SGRL provides clean credit of around 90 days on exports to reputed customers after strict due diligence.

#### ***Deterioration in the capital structure and debt protection metrics***

On consolidated basis, the debt levels of the company have increased to support to support working capital requirements. In addition, unsecured loans from promoter group entity amounting to Rs.44.99 crore have been treated as debt. The same has led to further deterioration in the overall gearing which stood at 1.85x as on March 31, 2019 (vis-à-vis 1.42x as on March 31, 2018). These unsecured loans have been in the business for more than three years.

Better profitability has led to increased cash accruals. However higher debt levels have led to deterioration in the debt protection metrics with total debt to GCA at 20.36x in FY19 from 17.95x in FY18. Since net interest expense (as per the exchange disclosure of the company) has been considered, the interest coverage ratio has improved from 1.69x in FY18 to 1.94x in FY19.

#### ***Susceptibility to changes in government regulations***

Any unfavorable revision in the duty structure and regulations can adversely affect SGRL's revenue and profitability. To diversify its reach and insulate itself from the changing regulations, SGRL has increased its focus on the international markets through its wholly owned subsidiaries namely Zee Gold DMCC (ZGD), Dubai and Shirpur Gold Mining Company Private Limited (SGM), Singapore.

#### ***Commodity and currency price risks***

The price of gold is largely governed by movements at major precious metal exchanges of London, New York, Tokyo and others. The local precious metal prices are an algorithm of these movements on 'spot' basis and Indian currency rates. Prices may fluctuate widely for all products affecting demands in the market.

SGRL procures dore by opening LC's, thereby increasing the dependence on working capital finance to support inventory. SGRL hedges the gold quantity on MCX as it imports dore. The purity levels are specified by the supplier before importing dore which is confirmed by testing the sample in laboratory. Once SGRL fixes the price with the customer the MCX position is closed thereby the company hedges the risk of volatility in price of gold. Thus the company has adopted adequate hedging mechanisms to effectively counter the risk that arises during operations and foreign exchange risks. However, the management cannot totally eliminate the risks involved in such volatile trades.

#### ***Pending settlement for the gold robbery in April 2015:***

On April 24, 2015, during transit to the factory at Shirpur, 60 kgs of gold was robbed near Nasik, Maharashtra of which the seizure made was 13.69 kgs including 2 kgs from the site of robbery and other assets of the robbers were in police custody. On April 19, 2017, the company took possession of the said seized 13.69 kgs of gold pursuant to the order of the Hon'ble Session Court. The claim for balance gold of 46.30 kgs valued at Rs.12.42 crore including expenses of Rs.0.17 crore is pending for settlement with the insurance company and is accounted as 'Claims Receivables' under other current assets. On finalization of claim by the insurance company, the difference, if any, between the amount claimed and the actual claim received, which the management does not expect to be material will be charged to the profit & loss account.

### **Key Rating Strengths**

#### ***Experienced management***

SGRL is a part of Essel group, which has its presence in diversified sectors such as television broadcasting, cable distribution, direct-to-home satellite service and digital media amongst others. The promoters have been closely involved in defining the overall business strategy after the acquisition from ARCIL auction. The company is supported by professionals who have vast experience in the gold business.

#### ***Acquisition of 70% shareholding rights of MEAM gold mines:***

During FY18, Zee Gold DMCC (ZGD), Dubai, a wholly owned subsidiary of SGRL acquired 70% shareholding rights of Metall Exploration and Mining (MEAM) for gold mines located at Mali, for a cash consideration of Rs.45 crore. MEAM holds the exploration permit over an area of 23.2 km located at Kangaba, Koulikoro region, Mali and has obtained Small Scale Mining License from Ministry of Environment. The said acquisition would lead to captive sourcing of raw materials at competitive rates.

**(ii) Unsupported rating****Key Rating Weaknesses*****Working capital intensive nature of operations***

ZGD is engaged in processing and trading of gold bars. ZGD procures raw material (dore) from Latin American markets and sells in the domestic markets under the brand name 'ZEE Gold'. On sourcing dore, ZGD gets the gold refined from Dubai's gold refiners like Al Ethihad Gold Refinery DMCC, Dubai. Post refining bars of 99.5% purity, the same is sold to bullion banks like Standard Bank of London, RAK Bank Dubai and other wholesale traders in Dubai. Since the dealings are in AED/USD, hence no hedging is done. The operations of the company is working capital intensive as dore suppliers insist on advance payment or provide credit of up-to fifteen days, whereas the company provides credit period of around 15-30 days to its customers. Thus the overall utilization stood around 90-95% for 12 months period ending June 2019.

***Low profitability margins***

During the past three years, the operations of the company have been growing with regards to increase in the trading activity. During FY19, lower income is reflected on account of change in accounting policy whereby the company recognized net amount for gold and silver sold (as against gross amount until FY18) as per IFRS 15. Growth in trading activity is along with improvement in the profitability margins as well which stood at 1.13% in FY19. Despite the increase, the profitability margins continue to be very low given the trading nature of business and are also susceptible to fluctuation in the commodity prices.

***High gearing level and weak debt protection metrics***

The operations of the company being working capital intensive, the reliance on external borrowings have increased. Increasing debt levels and low net-worth base have resulted in high gearing levels which stood at 3.16x as on March 31, 2019. Further the business generates low cash accruals being trading nature, thus the debt protection metrics stands weak with total debt to GCA at 12.04x and moderate interest coverage ratio of 2.20x in FY19.

***Weak liquidity profile***

The company avails sanction limit of around USD 25.75 million (approx. Rs.179.81 crore @Rs.69.83) which is currently utilized around on an average 90-95% for period ending June 2019. In addition the company has low cash & bank balance of Rs.7.09 crore (AED 37,10,874). Thus the overall liquidity position of the company stands weak.

***Exposure to commodity price risks***

The price of gold is largely governed by movements at major precious metal exchanges of London, New York, Tokyo and others. The local precious metal prices are an algorithm of these movements on 'spot' basis and Indian currency rates. Prices may fluctuate widely for all products affecting demands in the market. This would have direct impact on the low profitability margins of the company.

***Susceptibility to changes in government regulations***

Any unfavorable revision in the duty structure and regulations can adversely affect ZGD's revenue and profitability. Imposition of GST which hiked the tax rate of gold in India, had a direct impact to the players in the industry. To diversify the reach and insulate itself from the changing regulations, SGRL (part of Essel group) formed ZGD.

**Key Rating Strengths*****Experienced management***

ZGD is a part of Essel group, which has its presence in diversified sectors such as television broadcasting, cable distribution, direct-to-home satellite service and digital media amongst others. The company is supported by professionals who have vast experience in the gold business. Currently the operations are managed by chief financial officer, Mr. Sharvan Kumar Shah.

***Acquisition for gold mine in FY18***

ZGD acquired 70% shareholding rights of MEAM for gold mines located at Bamako, Mali during FY18. MEAM holds the exploration permit over an area of 23.2 km located at Kangaba, Koulikoro region, Mali, and has obtained Small Scale Mining License from Ministry of Environment. The said acquisition would lead to captive sourcing of raw materials at competitive rates. However, the subsidiary is yet to commence operations and thus the impact of the acquisition remains to be seen.

**Liquidity:** SGRL's overall profitability though meagre has been improving. Thus the cash accrual generated by the group is sufficient enough to service the debt obligations. In addition the company has cash & bank balance of Rs.81.22 crore (of which Rs.35.11 crore has been kept as margin money). Further the company has been utilizing its fund based limits on an average 76% and non-fund based limits on an average 94% for twelve months ending May 2019. Thus the overall liquidity position of the company stands weak.

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**Analytical approach:**

**ZGD:** The rating assigned to the bank facilities of ZGD is based on the assessment of SGRL.

**SGRL:** CARE has considered the consolidated financials of SGRL for analytical purposes owing to financial and operational linkages between the company and its subsidiaries. The consolidated financials include the financials of two wholly owned subsidiaries namely Shirpur Gold Company Pvt. Ltd., Singapore and Zee Gold DMCC, Dubai.

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Wholesale Trading](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

#### About the Company (ZGD)

ZGD is a part of Essel group with 100% holding of Shirpur Gold Refinery Limited. The company is engaged in processing and trading of gold bars. ZGD procures raw material (dore) from Latin America and sells in the domestic markets. ZGD has tied up with mining companies from gold producing countries in Latin America, Australia, Africa etc. in order to ensure proper and regular supply of gold dore. Post procurement, refining is done through Dubai's gold refiners like Al Etihad Gold Refinery DMCC, Dubai. After getting the refined bars of 99.5% purity the same are sold to bullion banks like Standard Bank of London, RAK Bank Dubai and other wholesale traders in Dubai. ZGD acquired 70% stake in Metalli Exploration and Mining (MEAM) in Mali, Bodoko. This company is yet to commence operations.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (Prov.)
Total operating income	3548.27	2382.31
PBILDT	24.03	26.92
PAT	12.48	14.32
Overall gearing (times)	2.83	3.16
Interest coverage (times)	2.14	2.20

A: Audited; Prov: Provisional

**Note:** Exchange rates considered for conversion of AED to INR for P&L:

FY18 = Rs.18.6251

FY19 = Rs.19.089

#### About the Guarantor (SGRL)

Shirpur Gold Refinery Limited (SGRL) is a part of Essel Group since December 2008, post takeover of assets from ARCIL auction. The company is engaged in gold refining with an installed capacity to refine 217 MT per annum of gold. Its refinery is located at Shirpur, Dhule district, Maharashtra. The company is also engaged in bullion trading, manufacturing and sale of gold coins, gold bars and gold jewelry both in the domestic and international markets. The company's products namely Gold Bars and Gold Jewelry are well established in the market and are sold under the brand name 'Zee Gold'.

As on March 31, 2019, SGRL has one wholly owned subsidiary namely Zee Gold DMCC (ZGD), Dubai and two step down foreign subsidiaries namely Precious Metals Mining and Refining Limited (PMMRL), Papua New Guinea and Metalli Exploration and Mining, Mali. Shirpur Gold Company Private Limited (SGM), Singapore ceased to exist with effect from March 07, 2019 and loss (Rs.1.96 crore); being investment value in such subsidiary has been written off.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (Abridged#)
Total operating income	5296.71	4274.56
PBILDT	55.70	61.23
PAT	14.33	21.33
Overall gearing (times)	1.09	1.85
Overall gearing (times)*	1.42	NA
Interest coverage (times)	1.69	1.94

A: Audited; #as per the exchange disclosure of the company

\*Treatment of unsecured loans: The unsecured loans from Jay Properties Pvt. Ltd. (promoter group entity) amounting to Rs.44.99 crore has been treated as debt from FY19 onwards as the latest sanction letters do not provide clarity on subordinated amount. The same was earlier considered as part of net-worth till FY18

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Status of non-cooperation with previous CRA:** Not Applicable

**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 - LT-Working Capital Demand loan	-	-	-	75.00	CARE BB+ (CE); Stable

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Demand loan	LT	75.00	CARE BB+ (CE); Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
i. Tangible Net-worth to be maintained annually minimum 36 million AED	The bank would have the right to re-negotiate sanction terms and conditions including security & charging penal interest in case of breach of the mentioned covenant.
ii. SGRL to maintain minimum of 100% holding	
iii. Total debt / Net-worth annually – 4.5x	
iv. Effect any change in the capital structure including proposed equity and debt patterns	-
v. Fails to meet obligations to pay interest, principal installments and/or other monies payable to bank	-
vi. Make any investment or take assets on lease except in ordinary course of business	-
vii. Undertake any guarantee obligation on behalf of any other company (including group companies)	-
<b>B. Non-financial covenants</b>	
i. Furnishing of information as desired by the bank in timely manner but not limited to statements on total amount due and outstanding to other lenders	
ii. Furnish to bank on or before 10 <sup>th</sup> day of each quarter, quarterly bank account statement and also sale and purchase quantity and value. The bank accounts to confirm the percentage of RBL facilities being unwinded from proceeds of sales of customers against promoter support and loans & advances if any.	
iii. Submit audited annual report as on soon as possible and in any	

event not later than 180 days after the close of each financial year	
Iv. Payment obligations to the bank under the unsecured facilities will at all times rank at least pari passu with all other present & future unsecured indebtedness	
V. Keep the bank informed of the happening of any event likely to have substantial effect on its business or profit	
Vi. Losses if any, to be funded by the borrower from promoter's contribution by way of equity or unsecured loans & advances	
Vii. Disbursement proceeds of the facilities to be made directly in the suppliers accounts	
Viii Change of business	
Ix. Declare or pay dividends on any of the equity/preference shares without prior approval of bank	
X. Undertake any reorganization, amalgamation, reconstruction, takeover or any other schemes of compromise or arrangement nor amend any provision of major constitutive documents in such manner that will affect the rights of bank under the facilities	
Xi. Induct or allow any person to be inducted who is director on the board of the company which has been identified as willful defaulter	
Xii. Enter into contractual obligation of long term nature or materially affecting the company financially	
Xiii Sell, assign, mortgage or otherwise dispose off any of the fixed assets or equity interest charged to the bank	

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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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.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**