

## Techno Jaya Jewelry Private Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	101.60	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	490.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>591.60</b> <b>(Five Hundred Ninety One Million and Sixty Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB- [Double B Minus]' to the long term bank facilities and 'CARE-NP A4 [A Four]' to the short term bank facilities of Techno Jaya Jewelry Private Limited (TJJPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TJJPL is constrained by its highly leveraged capital structure with modest debt service coverage indicators and elongated operating cycle leading to high reliance on bank finance for funding. The ratings also factor in the raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and regulatory requirement. The ratings, however, derives strength from the long track record of operations in jewelry business, experienced promoters and management in the related field and established market presence with its five outlets. The ratings also take cognizance of rebound in total operating income in FY22(Unaudited, refers to the twelve-month period ended mid-July 2022).

*Going forward, the ability of the company to profitably scale up the operations, manage foreign exchange fluctuation risks related to raw materials and rationalization of its debt through efficient working capital management leading to improved debt coverage and solvency indicators will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Highly leveraged capital structure with weak debt service coverage indicators

TJJPL's capital structure stood leveraged at the end of FY22 with overall gearing of 3.94x (FY21: 8.36x). The sequential improvement in gearing ratio in FY22 was aided by increase in net worth of the company amid injection of additional equity of Rs. 90 Mn in FY22. Despite the improvement, TJJPL's capital structure remains highly leveraged with minimal gearing headroom. Furthermore, amid muted cash generation from operations owing to modest profitability, the company has weak debt service coverage indicators. Nominal gross margins coupled with relatively high interest outgo due to high utilizations of working capital facilities resulted in interest coverage barely over 1x in FY22. Although profitability is expected to improve going forward with likely lower contribution from relatively less margin accretive trading business. However, until sustained improvement in profitability, the company's debt coverage indicators are likely to remain modest as interest expense is also likely to increase, particularly over the near-term, amid higher rates and increasing working capital requirements.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

**Elongated operating cycle with high reliance on bank finance for funding**

TJJPL is involved in trading of raw silver and manufacturing of silver items by importing raw silver through Letter of Credit. TJJPL purchases its raw materials through Letter of Credit and also has to fund the inventory and debtors which lead to high reliance on working capital limits. The company generally allows seven days credit period for trading of raw silver and three months credit period to its wholesale customers of silver items. However, TJJPL has to make prompt payment to the creditors upon the arrival of the raw silver, with lead time of only around five days. Total operating cycle of the company stood elongated at 155 days in FY22 with average collection period from customers of 87 days and average inventory holding period of 77 days. This leads to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limits against drawing power was around 81% during last twelve-month period ended mid-July, 2022. Furthermore, low current ratio of 1.16 at the end of FY22 (FY21: 1.16) reflects working capital intensive nature of operations and relatively low liquidity cushion of the company.

**Raw material price volatility risk and foreign exchange fluctuation risk**

Raw Silver is the major raw materials for TJJPL. It imports raw silver from Dubai. Other basic consumables including zinc, alloy, etc. are purchased from India. The prices of the raw silver are market linked and determined on the basis of its demand and supply in the international market, thus exposing the company to the volatility in the prices of raw materials. Besides, the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. However, the selling price for the raw silver in the domestic market is fixed by Federation of Nepal Gold and Silver Dealers' Associations, thus any volatility in prices of the raw silver impacts the profitability margins of the company for the trading.

In FY22, 24% of TJJPL revenue is contributed through trading of raw silver and remaining 76% if from the manufacturing and selling of silver items. The raw material cost contributed around 94% of the total operating income of the company during FY22. TJJPL also incurred foreign exchange loss of Rs. 6 Mn in FY22 (FY21: Rs. 12 Mn). The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be key monitorable aspect.

**Exposure to volatile interest rate**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

**Exposure to regulatory risk**

As per NRB Provisions related to supply of gold, import as well as selling-distribution of silver, Silver Traders who are duly registered to trade and import silver can only import silver as per the prevailing arrangement through open market import license (OGL), through bank guarantee, letter of credit, standby letter of credit and draft/ TT in order to discourage the unofficial medium for the purchase of silver in the country. Amid tight liquidity situation in the market coupled with declining forex reserve, NRB had further introduced several policies in the past including imposition of 100% cash margin

for opening letter of credit for the import of silver along with other items. Also, GON has recently revised custom tariff on silver to Rs. 107 per 10 gram from Rs. 85 per 10 gram from FY23 onwards as government witnessed rise in the import of silver in previous fiscal year. The current market dynamics with imposing 100% cash margin as well as restrictions in import quota for silver per LC along with other similar policies by the GoN/NRB imposes restrictions in the supply of silver in the market thus impacting the jewelry industry. The changes in the regulatory restrictions will remain a key monitor able aspect.

### **Key Rating Strengths**

#### **Long track record of operation in jewelry business along with experienced promoters**

TJJPL has an operational track record of more than a decade in jewelry business. The company is managed under the overall guidance of the company's Chairman; Mr. Dev Kisan Mundara, who has more than four decades of experience in various types of business and industries. He is also director of Baba Vegetable Oil Industries Pvt Ltd (CARE-NP A3) involved in the business of palm, soyabean, sunflower & mustard Oil & Baba Jute Mills Pvt Ltd. involved in the manufacturing of jute, bora & different jute material. He is also proprietor of Anurag Aggarbatti Dhoop Udhyog. Mr. Nanda Kisore Mundara, director, is involved in business activities related to industrial sector for more than four decades. The board is aptly supported by an experienced management team across various functions.

#### **Established Market presence with its five Outlets**

TJJPL is engaged in trading of raw silver and manufacture and sale of silver items. The customer mix of TJJPL includes both the jewelry manufacturers and retail customers. The customer mix is more concentrated toward wholesale trading than retail. TJJPL prepares silver items both on pre - request of the customers as well as for retail sale through its five outlets. The manufacturing unit is located in Biratnagar. Two of its outlets are located in Biratnagar, one outlet each is located in Kathmandu, Bhairahawa and Nepalgunj. The outlets in Biratnagar covers the sale and customer base of eastern part of the nation and the outlet in Bhairahawa and Nepalgunj the western part of the country. The outlet in Kathmandu servers the customer base of central region of the country. Thus, TTJL market presence through its showroom and outlet located throughout the country instead of concentration in single region.

#### **Rebound in total operating income in FY22, although profitability remains modest**

The company reported increase in total operating income by 73% to Rs. 1,149 Mn in FY22 (from Rs. 661 Mn in FY21) on account of increase in the sale of silver items, where profit margins are higher compared to the trading of raw silver. The contribution on revenue from trading of raw silver and sales of silver items stood around 24% (FY21: 55%) and 76% (FY21: 45%) of TOI respectively in FY22 as the company's focus shifted towards the manufacturing and sale of silver items in FY22.

PBILDT has increased to Rs. 59 Mn in FY22 from Rs. 6 Mn in FY21. PBILDT margin was 5.11% in FY22 (FY21:0.89%). PBILDT Margin was lower in FY21 mainly due to high volatility in the prices of silver and the company was not able to fully pass on to its customers. TJJPL reported net loss of Rs. 3 Mn in FY22 (FY21: loss of Rs. 34 Mn).

### **About the Company**

Techno Jaya Jewelry Private Limited (TJJPL) originally incorporated and registered in Department of Cottage and Small Industries in 2005 was later registered as private limited company in March 15, 2016. It is involved in the business of wholesale trading of raw silver. TJJPL also has plant set up in Biratnagar, Morang district with the installed capacity of 30,000 gram per day, where the raw silver is converted into various silver ornaments and jewelry. The silver ornaments are both prepared on pre - request of the customers as well as for retail sale through its five outlets.

Brief financial performance of TJJPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (UA)
Income from operation	907	661	1,149
PBILD Margin (%)	8.17	0.89	5.11
Overall Gearing (times)	15.14	8.36	3.94
Interest coverage (times)	1.79	0.27	1.15
Total Debt / Gross Cash Accruals (times)	22.11	Negative	561.67

A: Audited; UA: Unaudited

### **Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	101.60	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	490.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>591.60</b>	

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#### **About CARE Ratings Nepal Limited:**

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