

## Techno Jaya Jewelry Private Limited

### Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	91.51 (Decreased from 101.60)	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	500.00	CARE-NP A4 [A Four]	Reaffirmed
Short Term Bank Facilities	80.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>671.51</b> <b>(Six Hundred Seventy-One Million</b> <b>and Five Hundred Ten Thousand</b> <b>Only)</b>		

\* Details of Facilities in Annexure 1

Care Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned 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 ratings of TJJPL are constrained by its leveraged capital structure, modest debt service coverage indicators, and elongated operating cycle, resulting in a significant reliance on bank financing. The ratings also consider the risks associated with raw material price volatility, foreign exchange fluctuations and exposure to volatile interest rates.

The ratings, however, derive strengths from TJJPL's long track record of operations in jewellery business, experienced promoters and management in the related field and established market presence with its six outlets. Additionally, the ratings acknowledge the positive impact of TJJPL's strategic shift towards manufacturing and selling silver items in FY23, leading to an improved margin profile for the company.

*Going forward, the ability of the company to profitably scale up the operations, 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

##### Leveraged capital structure with modest debt service coverage indicators

TJJPL's capital structure stood leveraged at the end of FY23 (FY refers to the twelve-month period ending mid-July) with overall gearing (excluding unsecured loans from directors) of 4.30x (FY22: 4.42x). The company continues to have a relatively high debt levels vis-à-vis its scale of operations, resulting in a high financial leverage. Relatively subdued cash generation from operations, with impact of improved profitability being offset by decline in income led to modest debt service coverage indicators of TJJPL in FY23. Consequently, amid high interest outgo owing to elevated utilization of working capital facilities, TJJPL's interest coverage stood at 1.11x in FY23 (FY22: 1.00x). Although profitability is expected to improve going forward with increasing focus on margin accretive manufacturing business instead of trading business, a sustained high utilization of working capital facilities will likely constrain its credit profile with minimal gearing headroom.

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

**Highly elongated operating cycle**

TJJPL is involved in manufacturing silver items by importing raw silver using Letter of Credit (LC). The company acquires its raw materials through the Letter of Credit, and it also needs to finance inventory and debtors, resulting in a substantial dependence on working capital limits. In FY23, the total operating cycle for the company extended to 302 days, with an average collection period from customers of 165 days and an average inventory holding period of 152 days. This elongated operating cycle resulted in the company's heavy reliance on bank financing for meeting its working capital requirements. Over the last twelve months ending mid-November 2023, the company had an average utilization of approximately 86% of its sanctioned fund-based working capital limits.

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

The company's primary raw material is raw silver which it imports from Dubai. Other essential consumables, such as zinc and alloy, are sourced from India. The pricing of raw silver is subject to market dynamics, determined by international demand and supply, exposing the company to fluctuations in raw material prices. Additionally, since the prices are linked to USD, TJJPL faces foreign exchange fluctuation risks. Furthermore, the selling price for raw silver in the domestic market is fixed by the Federation of Nepal Gold and Silver Dealers' Associations. Consequently, any volatility in raw silver prices directly impacts the company's profitability margins. In FY22, TJJPL incurred a foreign exchange loss of Rs. 6 Mn. The company's ability to pass on changes in raw material prices to customers and effectively manage foreign exchange fluctuation risks associated with raw materials will be a crucial aspect to monitor.

**Exposure to volatile interest rate**

The company operates under a floating interest rate regime, wherein a premium is added to the monthly base rate, and the interest rate is adjusted accordingly on a monthly basis. The base rates of banks and financial institutions (BFIs) in Nepal are subject to volatility, influenced by the liquidity available in the system, causing fluctuations in interest rates. The company is vulnerable to the impact of these changes, and higher-than-anticipated interest rates could potentially narrow the company's profit margins. Since the capital structure of the company is highly leveraged, the funding from banks is exposed to the volatility of interest rates.

**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 Private Limited involved in the business of palm, soyabean, sunflower & mustard Oil and Baba Jute Mills Private Limited involved in the manufacturing of jute, bora & different jute material. He is also proprietor of Anurag Aggarbatti Dhoop Udhog. 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.

**Improved profitability profile with increasing focus in manufacturing business**

The company's overall business profile has experienced improvement, attributed to a strategic shift in focus towards the manufacturing and sale of silver items in FY23. This shift led to a 31% decrease in Total Operating Income (TOI), from Rs. 1,149 Mn in FY22 to Rs. 788 Mn in FY23, primarily due to the discontinuation of trading in raw silver. Despite the decline in TOI, the company's profitability has significantly improved. The emphasis on manufacturing and selling silver items in FY23, which proved to be more margin accretive, contributed to this positive trend. Changes in import regulations and duties,

including limitations on quantity per LC for raw silver purchases, influenced this strategic shift. Consequently, PBILDT margin increased from 4.45% in FY22 to 11.08% in FY23. The company faced profitability challenges in FY22, as it had to locally purchase raw silver at higher rates due to quota restrictions, limiting its ability to acquire it through Letters of Credit (LC). The company reported a net profit of Rs. 5 Mn in FY23, marking a notable turnaround from a net loss of Rs. 11 Mn in FY22.

### Established and diversified market presence

TJJPL is currently primarily engaged in manufacture and sale of silver items. The customer mix of TJJPL includes both jewelry manufacturers and retail customers. The customer mix is more concentrated toward wholesale clientele than retail. TJJPL prepares silver items both on pre-request of the customers as well as for retail sale through its six outlets. The manufacturing unit is located in Biratnagar. The company has a pan Nepal presence for sales with two of its outlets are located in Biratnagar, and one outlet each in Kathmandu, Bhairahawa, Pokhara and Nepalgunj. The outlets in Biratnagar covers the sale and customer base of eastern part of the nation and the outlet in Pokhara, Bhairahawa and Nepalgunj the western part of the country. The outlet in Kathmandu serves the customer base of the central region of the country. This enables TJJPL with a more diversified market presence vis-à-vis competition, which tend to be concentrated in a single region.

### 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 six outlets.

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

(Rs. In Million)

For the year ended mid-July	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	661	1149	788
PBILDT Margin (%)	0.89	4.45	11.08
Overall Gearing (times)	7.35	4.42	4.30
Total Outstanding Liabilities/Tangible Net worth (times)	8.92	4.87	5.13
Interest Coverage (times)	0.27	1.00	1.11
Current Ratio (times)	1.16	1.15	1.25
Total Debt/Gross Cash Accruals (times)	Negative	Negative	70.79

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	91.51	CARE-NP BB-
Short Term Bank Facilities	Fund/Non-Fund Based Limit	580.00	CARE-NP A4
<b>Total</b>		<b>671.51</b>	

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