

Sky Gold Limited

December 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	250.00	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sky Gold Limited (SGL) derives strength from the experience of the promoters in the gems and jewellery (G&J) industry and its long-standing relationship with reputed customers. The ratings further, derive comfort from the substantial improvement in the revenue and profitability in FY23 (April 01 to March 31) and H1FY24 (April 01 to September 30), and recent equity infusion through preferential allotment which is expected to improve the capital structure in FY24. CARE Ratings Limited (CARE Ratings) believes, domestic demand is likely to sustain and remain robust over the medium term. The above rating strengths, are however, tempered by customer concentration risk and presence in highly competitive and fragmented jewellery business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operations above ₹2,500 crore
- Improvement in overall gearing below 0.50x on a sustained basis

Negative factors

- Deterioration in total debt/PBILDT above 5.00x
- Decline in overall gearing above 1.5x
- Any deterioration in the liquidity profile of the company owing to any significant increase in receivables or inventory levels

Analytical approach: Standalone

Outlook: Stable

SGL is expected to benefit over the medium term from the stable industry outlook driven by uptick in demand from the domestic market.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

The company's promoters, Mangesh Chauhan, Mahendra Chauhan, and Darshan Chauhan have more than a decade of experience in the G&J industry. The promoters are actively involved in the company's strategic decisions and their experience ensures established, long-standing relationships with suppliers and customers in the domestic market.

Substantial improvement in the revenue led by increase in volumes in FY23 and H1FY24; likely to continue in mid term

SGL has been able to register a sales growth of more than 13% compounded annual growth rate (CAGR) for FY20-FY23 period. The company's topline improved from ₹785 crore in FY22 to ₹1,155 crore in FY23 on account of increase in sale of volumes by 40% y-o-y basis which was driven by increase in orders from the existing customers. During the current year, SGL has achieved sales worth ₹772 crore in H1FY24. Hence, sustainability of the revenue along with high volume sales will be key monitorable.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Operations to get support from latest fund infusion through preferential allotment; Capital structure expected to improve in FY24

The financial profile of the company is marked moderate in FY23 on account of overall gearing at 1.49x. The debt structure of the company majorly comprises of working capital borrowings. In November 2023, the company has infused equity worth ₹99.14 crore through preferential allotment basis. Hence, the capital structure of SGL is expected to improve significantly in FY24. According to the management, these funds will be utilised to meet the increasing working capital requirements on account of the rising topline. Hence, CARE Ratings believes, the bank line utilisation is expected to moderate resulting an improvement in the overall gearing in FY24.

Improvement in operating margin; sustainability is critical

SGL's operating margin has been improving y-o-y and improved to 3.20% in FY23 vis-à-vis 2.60% in FY22 and 1.33% in FY21. In H1FY24, the company's operating margin has improved further and stood above 5% due to better realisations fetched on account of company's ability to offer unique and trendy designs to its customers. The realisations were also supported by growth in the scale of operations in FY23 and H1FY24. The realisations have improved by more than 25% y-o-y basis for the said period. Going forward, sustainability of the operating margin above 5% will be key monitorable.

Key weaknesses

Customer concentration risk

SGL has a long-standing relationship with its customers which benefits the company in order to receive repeated orders. The clientele profile comprises of reputed gold jewellery retailers such as Malabar Gold Pvt Ltd, Joyalukkas India Pvt Ltd, Kalyan Jewellers India Limited, etc. The top 10 customers contribute more than 75% to the total revenue of SGL in FY23. Hence, SGL is susceptible to customer concentration risk. However, few of the top 10 customers are marquee customers where the credit risk is low which partially mitigates the customer concentration risk. Furthermore, the company is in talks with two marquee customers Tanishq and Aditya Birla which are expected to onboard in FY24. CARE Ratings believes, adding new customers in order to dilute customer concentration risk shall be crucial for SGL's prospects.

Presence in highly competitive and fragmented jewellery business

The G&J industry is a fragmented industry with a high level of competition from both the organized and largely unorganized sector. Moreover, the global macroeconomic environment continues to remain uncertain and poses a major challenge for the G&J industry, which is mainly export-driven. Furthermore, in the wake of the recent adverse global macroeconomic developments, the G&J industry has seen a slowdown in demand and the players have to offer high credit period to its customers.

Liquidity: Adequate

The liquidity position is marked adequate on account of sufficient cushion in accruals against its repayment obligations for FY24. The free cash balance stood moderately healthy at ₹18.38 crore and current ratio at 1.29x as on March 31, 2023. The average utilization of its working capital limits during past 12 months ending August 2023 stood at 93%. However, going forward, the bank line utilisation is expected to decline below 80% as the funds infused through equity will be utilised to meet the working capital requirements.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cut and Polished Diamonds](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, Jewellery and Watches

Incorporated in 2008, SGL is engaged in the business of designing, manufacturing, and marketing of gold jewellery. They provide a range of designs and use studded American diamonds and/or colored stones in many of their jewellery products. The company mostly specialises in jewellery made of 22 Karat gold and offers a wide range of styles to meet consumer preferences. SGL caters to a large number of wholesalers showrooms and retailers who buy products in bulk quantities. The manufacturing facility is located in Shirawane, Navi Mumbai with an installed capacity of 1,000 kg per month.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	785.89	1,154.12	737.78
PBILDT	20.47	36.92	33.89
PAT	16.95	18.61	17.94
Overall gearing (times)	1.20	1.49	NA
Interest coverage (times)	2.55	3.42	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash credit		-	-	-	230.41	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-Term loan		-	-	2027	19.59	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ST-Cash credit	LT/ST*	230.41	CARE BBB; Stable / CARE A3+				
2	Fund-based - LT/ST-Term loan	LT/ST*	19.59	CARE BBB; Stable / CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash credit	Simple
2	Fund-based - LT/ ST-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sudarshan Shreenivas Director CARE Ratings Limited Phone: 912267543566 E-mail: sudarshan.shreenivas@careedge.in</p> <p>Nikhil Joshi Assistant Director CARE Ratings Limited Phone: 912267543540 E-mail: Nikhil.joshi@careedge.in</p> <p>Rakshata Khatawkar Analyst CARE Ratings Limited E-mail: Rakshata.K@careedge.in</p>
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About us:

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