

Rating Rationale

28 Mar 2020

Rajesh Exports Limited

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs.1100 Crs of Rajesh Exports Limited ('REL' or the 'Company')

Particulars:

Facility	Amount (Rs Crs)		Tenure	Ratings	
	Previous	Present		Previous# (02 Jan 2019)	Present
Fund Based					
FDB/FBE/BRD	250.00	250.00	Long Term	BWR A+/ Stable	BWR A+ / Stable Reaffirmed
FDB/FBE/BRD-Proposed	250.00	250.00			
Non Fund Based					
ILC/FLC	300.00	300.00	Short Term	BWR A1+	BWR A1+ Reaffirmed
ILC/FLC- Proposed	300.00	300.00			
Total	1,100.00	1,100.00	Rupees One Thousand One Hundred Crores Only		

Rating migrated to rating not reviewed category on 03 Jan 2020

Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Details of Bank facilities are provided in Annexure-I

Rating Action/Outlook

The reaffirmation of ratings continues to reflect the dominant position in gold exports/ refining, extensive industry experience of the management, established gold refining and gold manufacturing capacities, above average financial risk profile and adequate liquidity. BWR draws comfort from the 100% cash margin backed post shipment finance and non fund based limits. The ratings, however, are partially offset by the exposure to regulatory interventions, gold price volatility and presence in the low margin business segment of wholesale exports. BWR believes that the company is likely to face demand side headwinds in the short term on account of the recent COVID-19 pandemic.

BWR believes the Rajesh Exports Limited business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term supported by its competitive position across its business segments while maintaining its above average financial risk profile. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The outlook may be revised to negative in the

event of deterioration in the business/financial risk profile due to regulatory changes, significantly lower cash flows and/or lower than expected performance of the company.

Key rating drivers

Credit Strengths:

- **Long operational track record and experienced promoters:**

The Company and the promoters have a long track record of around four decades and extensive experience in the bullion, gold refining and gold jewellery manufacturing business which has helped in understanding the business cycles, establishing relationships with suppliers and customers, obtaining repeat orders and addressing associated inherent risks.

- **Established manufacturing facilities:**

The company is the world's largest manufacturer of gold jewellery and gold products. The manufacturing facilities are at Bangalore (India), Cochin (India) and Dubai (UAE) with a total capacity of 350 tons per annum. Also, the acquisition of a gold refinery, Valcambi SA in July 2015 enabled REL to emerge as World's largest gold Company and the only end to end provider across the value chain of gold. Presently, the company has 2 refineries located at Valcambi, Balerna, Switzerland and at Uttarakhand in India with combined capacity of 2400 tons per annum. It also has retail presence under the brand "SHUBH Jewellers" and has 82 showrooms across Karnataka.

- **Above average financial profile:**

The company's risk profile continues to be above average as reflected by comfortable networth, adequate gearing and moderate protection metrics. Operating revenue improved to Rs.42330.66 Cr during FY19 against Rs.33129.00 Cr in FY18. EBITDA declined to Rs.737.04 cr in FY19 from Rs.882.59 cr in FY18 on account of increased gold prices. However, PAT remained flat at ~Rs.442 Cr in FY19. Tangible net worth (TNW) was Rs.4562.76 crore as on 31 Mar 2019 and TNW (Adjusted for investment in subsidiaries) is Rs.4083.63 cr. Total Debt/ TNW improved to 1.33 times as on 31 Mar 2019 (PY 2.07 times). Also, BWR notes that the total debt as on 31 Mar 2019 stands at Rs.6072.32 cr, including Rs.4188 cr of loans against fixed deposits and the balance in the form of working capital facilities. The company's gearing post exclusion of Loans against deposits works out to 0.41 times as on 31 Mar 2019. Debt servicing capabilities were moderate as reflected by DSCR and ISCR of 2.39 and 2.30 times respectively as on 31 Mar 2019.

Credit Concerns

- **Inherent risks associated with Gold Industry:**

In General, bullion refining and jewellery retail industry are subject to regulatory intervention and compliance matters from time to time, which impact the operating environment and consequently the performance. Increasing supervision and the cautious lending environment has affected the fund flows to the sector. REL primarily exports its jewellery to Europe, UAE with relatively small exposure to the domestic market. Also, REL's exposure to retail business is presently minimal. Nonetheless the company is exposed to the associated risks to a certain degree.

- **Low Profit Margins:**

Traditionally, the company's net margins are on the lower end of the spectrum on account of its wholesale business which is highly fragmented and competitive and limited value addition resulting in reduced pricing flexibility. The risks are marginally offset by the company's venture into the retail segment through its own brand "Shubh" Jewellers which commenced its operation in 2014.

- **Related Party Transactions:**

REL imports gold bullion through its group company. BWR notes the operational linkages amongst the group companies and the management's stand that such trade transactions are carried on the basis of "arm's length approach". However, compliance as per extant regulatory environment and timely realisation of the loans and advances from its subsidiaries will be a key rating sensitivity.

- **Gold Price volatility:**

The Company is exposed to volatility in gold prices (including fluctuations in foreign currency) arising on purchase/ sale of gold. However, the Company enters into forward contracts/derivative financial instruments to manage the risks associated with gold price fluctuations. Also, the company's business profile is likely to be impacted by subdued consumer demand driven by high gold price volatility.

- **Impact of COVID-19:** Covid-19 pandemic has resulted in an unparalleled global disruption with drastic containment measures being implemented worldwide. BWR believes COVID-19 is likely to have an adverse impact with the restrictions/curtailment on consumer mobility across the globe especially Europe. Also, on account of the lockdowns, order inflows are likely to be subdued in the short term. The management has recognised the impact of the pandemic on business and expects an impact of 15-20% on its business/

demand. A long term adverse impact on Business profile can not be ruled out if the pandemic prolongs on account of subdued demand. The ability of the company to manage regular order inflows and its operations would be a key rating sensitivity.

Rating sensitivities:

The ability of the company to strengthen its credit profile and business risk profile with sustained performance across all divisions, improve its profitability, ensure timely realisation of the loans and advances from its subsidiaries and consolidate its market share in its new business verticals- Retail, e-commerce, Duty free etc to ensure revenue diversity would be the key rating sensitivities. BWR also notes the recent adverse impact on the business on account of COVID-19. An extension of the present business scenario on a prolonged basis may have an adverse impact on the business. .

Positive

- Healthy growth in revenues and earnings on a sustained basis.
- Increased diversification through different business verticals
- Specific credit metrics which may result in a rating upgrade include EBITDA margin above 5.00% and Total Debt/ TNW remaining below 1.0 times on a sustained basis.

Negative

- Weakening of business performance due to decline in revenue or profitability thereby impacting cash accruals
- Specific credit metrics which may result in a rating downgrade include EBITDA<1.50%, Total Debt/TNW exceeding 2 times, DSCR and ISCR declining to below 1.50 times on a sustained basis.

Liquidity - Adequate:

EBITDA at Rs.737.04 cr for FY19 was ~2.3 times of the interest and finance charges of FY19. The Company mainly relies on overdraft against deposits and ILC/ FLC for its working capital and inventory needs against 100% cash margin. The average fund based utilization is low whereas the non fund based (NFB) limits are generally fully utilised. REL has no term debt repayment obligations. Keeping in view REL's adequate cash accruals and liquidity in the form of cash and cash equivalents, FDs of over ~Rs.14500 crores as on 31 Mar 2019 against nil repayment obligations, the liquidity is considered adequate.

Analytical approach and Applicable Rating Criteria: Standalone

For arriving at its ratings, BWR has adopted a stand-alone approach. However, BWR has taken note of various group companies which are located abroad, and engaged in gold refining, and

jewellery making/trading. These companies are REL Singapore PTE Ltd located in Singapore, Valcambi SA located in Switzerland and Bab Al Ryan located in UAE. BWR has further noted that these overseas companies have marginal debt, Hyperlinks to the Rating Criteria is provided at the end of the rationale.

About the Company

Rajesh Exports, headquartered in Bengaluru was established on 29 May 1990 as a partnership firm by Mr. Rajesh Mehta and Mr. Prashant Mehta. The firm was later reconstituted in 1995 as Rajesh Exports Limited (REL). REL is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). It is engaged in the business of importing gold and manufacturing gold jewellery, medallions and other products. The company primarily exports these products across the world i.e. Europe and UAE apart from selling in the wholesale market and through their own retail stores. The Company has manufacturing facilities at Bangalore (India), Cochin (India) and Dubai(UAE) with an aggregate capacity of 350 tons per annum with capability to produce a wide range of hand made, semi machined & complete automated gold jewellery & gold products. Also, the group through its refinery facilities at Valcambi SA (Switzerland) and Uttarakhand (India) has gold refining capacity of 2400 tons per annum. It has its R&D units located at Bangalore & Balerna, Switzerland). The company also has retail presence under its own brand “SHUBH Jewellers” with 82 showrooms in Karnataka.

REL has a 100% subsidiary REL Singapore PTE Ltd which has further step down subsidiaries Valcambi SA, Switzerland & Bab Al Ryan, UAE. Valcambi SA is a gold refinery unit with capacity of 2400 tons per annum and produces Valcambi bullion supplied to Bullion banks and central banks across the world. Bab Al Rayan LLC, UAE also has a small refinery and supplies gold to retailers across UAE.

Mr Rajesh Mehta is the Executive Chairman and Mr.Prashanth Mehta is the Managing Director.

Key Financial Indicators (Standalone):

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited
Total Operating Income	Rs. Crs	33,129.00	42,330.66
OPBDITA	Rs. Crs	882.59	737.04
Net Profit	Rs. Crs	441.26	442.12
Tangible Net Worth (TNW)	Rs. Crs	4,150.23	4,562.76
Total Debt*	Rs Crs	8594.55	6072.32
Total Debt/TNW	Times	2.07	1.33



Current Ratio	Times	1.09	1.11
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* Total debt includes Loans against fixed deposit of Rs.4188.33 cr as on 31 Mar 2019 (PY Rs. 7334.52 cr)

On an unaudited basis, the Company has reported a total operating income of ~Rs.35400 Crs for 9MFY20.

Key Financial Indicators (Consolidated):

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited
Total Operating Income	Rs. Crs	1,87,154.64	1,75,422.89
OPBDITA	Rs. Crs	1,884.42	1,795.85
Net Profit	Rs. Crs	1,265.86	1,292.13
Tangible Net Worth (TNW)	Rs. Crs	6,229.79	7,469.80
Total Debt*	Rs. Crs	8961.37	6323.93
Total Debt/TNW	Times	1.44	0.85
Current Ratio	Times	1.32	1.33

* Total debt includes Loans against fixed deposit of Rs.4188.33 cr as on 31 Mar 2019 (PY Rs. 7334.52 cr)

Note: Consolidated revenue includes financials of REL and its 100% wholly owned subsidiary REL Singapore Pte Ltd. REL contributed ~24% of the revenue on a consolidated basis for FY19. On an unaudited basis, the Company has reported a total operating income of ~Rs.1,48,000 Crs for 9MFY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years:

Facility	Current Rating (Mar 2020)			Rating History#		
	Amount (Rs Crs)	Tenure	Rating	2019 02 Jan 2019 ^^	2018 14 Dec 2018 ^	2017
Fund Based						
FDB/FBE/BRD	250.00	Long Term	BWR A+/ Stable	BWR A+/ Stable	BWR A+/ Stable	-
FDB/FBE/BRD-Proposed	250.00					
Non Fund Based						
ILC/FLC	300.00	Short Term	BWR A1+	BWR A1+	BWR A1+	-
ILC/FLC-Proposed	300.00					
Total	1,100.00	Rupees One Thousand One Hundred crores Only				

Rating migrated to rating not reviewed category on 03 Jan 2020

^^ Amount rated was Rs.1,100.00 cr inclusive of proposed limits of Rs.550.00 cr.

^ BWR had initially rated bank loan facilities of Rs.550.00 cr and assigned BWR A+ / Stable / A1+ on 14 Dec 2018.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

General Criteria	Manufacturing Companies
Approach to Financial Ratios	Short Term Debt

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**Annexure I:
Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Canara Bank	FDB/FBE/BRD	250.00	-	250.00
2		ILC/ FLC	-	300.00	300.00
3	Proposed	FDB/FBE/BRD	250.00	-	250.00
4		ILC/ FLC	-	300.00	300.00
Total			500.00	600.00	1,100.00

Note: The company has sanctioned limits FDB/FBE/ BRD, OD against deposits , ILC/ FLC and forward contract limits aggregating Rs.14070 cr from Canara Bank outside consortium which have not been rated by BWR.

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by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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