

## Rating Rationale

02 Mar 2021

### Rajesh Exports Limited

**Brickwork Ratings downgrades the ratings to BWR A-/ A2+ and places the ratings on Credit Watch with Negative Implications for the bank loan facilities of Rajesh Exports Limited amounting to Rs.1100 Crs.**

#### Particulars:

| Facility                     | Amount (Rs Crs) |                 | Tenure   | Ratings                |  |
|------------------------------|-----------------|-----------------|--|------------------------|--|
|                              | Previous        | Present         |  | Previous (28 Mar 2020) | Present  |
| <b>Fund Based</b>            |                 |                 |  |                        |  |
| <b>FDB/FBE/BRD</b>           | 250.00          | <b>250.00</b>   | Long Term  | BWR A+/ Stable         | <b>BWR A-<br/>Credit Watch with<br/>Negative Implications</b>  |
| <b>FDB/FBE/BRD- Proposed</b> | 250.00          | <b>250.00</b>   |  |                        |  |
| <b>Non Fund Based</b>        |                 |                 |  |                        |  |
| <b>ILC/FLC</b>               | 300.00          | <b>300.00</b>   | Short Term   | BWR A1+                | <b>BWR A2+<br/>Credit Watch with<br/>Negative Implications</b> |
| <b>ILC/FLC- Proposed</b>     | 300.00          | <b>300.00</b>   |  |                        |  |
| <b>Total</b>                 | 1,100.00        | <b>1,100.00</b> | <b>Rupees One Thousand One Hundred Crores Only</b> |                        |  |

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

#### **Rating Action/ Credit Watch with Negative Implications**

The revision in the rating of **Rajesh Exports Limited ('REL' or the 'Company')** follows the information risks associated arising out of absence of a clear and validated lender feedback, unavailability of a valid sanction letter post expiry of the sanction dated 17 Jun 2019 and non submission of NDS for the past three months. BWR as part of its regular monitoring has been following up with the banker for their feedback on a regular basis; however, despite numerous attempts the banker is yet to share a feedback. BWR notes that although the company is having exposure of ~Rs.14600 Crs from the lender, BWR has rated only Rs.1100 crs including proposed limits of Rs.550.00 crs. The rating also factors in the continuing significant adverse impact of COVID-19 and lower than expected recovery in the business operations of the company as reflected in sales achievement of Rs.934.12 crs for 9M FY21 as against Rs.35,357 crs for 9MFY20. However, ratings continue to reflect the dominant position in gold exports/ refining, extensive industry experience of the management, established gold refining and gold manufacturing capacities and adequate liquidity. The ratings also remain constrained by the exposure to regulatory interventions, gold price volatility and presence in the low margin business segment of wholesale exports.

Another cause for concern is the inability of the lender to convey its decision about the status of the company, REL, with regard to the Covid-related reliefs and concessions. The lender has not yet provided BWR any clarity regarding the classification status of REL. While the company is

categorical that all its facilities are backed by 100% cash margin, the banker has not been able to confirm the position or otherwise.

In short, the downgrade of the ratings of relatively small, although significant, part of the total debt of REL is largely influenced by the lack of cooperation by the lender in giving information about the actual status of the company, and the ongoing litigation between REL and its lender.

The rating is placed on Credit watch with Negative implications to reflect the uncertainty of litigation between the Lender and REL. From media reports, it is learnt that there is an ongoing litigation between the Lender and the Company relating to REL's request for deferment of payment of Letters of Credit issued by the Bank in the light of COVID-19 impact on its business. However, the bank has not acceded to the company's request in this regard and honoured the obligations on the due dates as it was bound by the RBI's extant Guidelines. The matter is being pursued legally by the company. BWR is closely monitoring the situation to understand the implications on the company's credit risk profile and shall take appropriate rating action including resolution of the watch as and when it has greater clarity on these aspects.

### **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.46899.11 crs during FY20 as against Rs.42330.66 Cr during FY19. EBITDA declined to Rs. 434.22 crs in FY20 from Rs.737.04 crs in FY19 on account of interest and finance charges have been considered in the Cost of Goods Sold (COGS) leading to a decline in EBITDA in FY20. However, PAT declined marginally to Rs.403.29 crs in FY20 as against ~Rs.442 Cr in FY19. Tangible net worth (TNW) was Rs. 4936.71 crs as on 31 Mar 2020 as

against Rs.4562.76 crore as on 31 Mar 2019. Total Debt/ TNW improved to 0.19 times as on 31 Mar 2020 as against 1.33 times as on 31 Mar 2019. Also, BWR notes that the total debt as on 31 Mar 2020 stands at Rs.960.96 cr (PY Rs.6072.32 crs) including Rs.831.21 cr (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 0.03 time as on 31 Mar 2020 (PY 0.41 time). The company has included interest and finance charges have been considered in the Cost of Goods Sold (COGS) from FY20 onwards and as such the DSCR and ISCR are not being worked out. Debt servicing capabilities were moderate as reflected by DSCR and ISCR of 2.39 and 2.30 times respectively as on 31 Mar 2019. The impact of COVID-19 has been significant as reflected in the 9 month unaudited financials. As on unaudited 9M FY21 basis, the company's sales are still much below the pre-covid levels achievement of sales of Rs.934.12 crs during 9M FY21 as against Rs.35357 crs during 9M FY20. The PAT stood at Rs.67.86 crs during 9M FY21 as against Rs.333.04 crs during 9M FY20.

### **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 has 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 operations 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:** The company's operations have been significantly impacted by the COVID-19 related restrictions/curtailment on consumer mobility across the globe. The

operations of Rajesh Exports Limited through its units in Bangalore and Cochin (SEZ) continue to be minimal with restrictions on International flights. Although the company has seen some traction in the retail sales, the company's primary revenue stream is through export sales which is presently significantly impacted. BWR notes that the company has recently bagged a bulk order of Rs.1325 crs from one of its German customers. Notwithstanding the recent orders and marginal recovery, the impact of the pandemic on standalone business and the FY21 sales is expected to be severe than as anticipated earlier by the management in the range of 15-20% during last review and around 40-45% during post Q1FY21 numbers. However, the consolidated numbers for FY21 are expected to show improvement considering the improved sales from its refinery unit at Valcambi. A long term adverse impact on Business profile can not be ruled out incase of subsequent curtailments due to further spread of COVID-19 or its mutant strains. The ability of the company to manage regular order inflows and its operations continues to be a key rating sensitivity.

#### **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 4 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.

#### **Rating sensitivities:**

BWR notes the 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. BWR also notes the ongoing litigation between the Bank and the Company pertaining to a plea for deferment of LC payments.

#### **Positive :**

- Given the ongoing weakness in the macro-economic environment and the impact on the sector, a rating upgrade in the near term remains unlikely.
- Any favourable judgement on the ongoing litigation between the Banker and the company pertaining to plea for deferment of LC payments is expected to aid in the company's liquidity profile.

#### **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<0.75%, Total Debt/TNW exceeding 2 times, DSCR and ISCR declining to below 1.50 times on a sustained basis.

### Liquidity - Adequate:

The Company mainly relies on overdraft against deposits and ILC/ FLC for its working capital and inventory needs against 100% cash margin with present utilisation of NFB facility as Nil. 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.11182 crs as on 31 Mar 2020 and Rs. 427 crs as on 30 Sep 2020 against nil repayment obligations, the liquidity is considered adequate. The decline in cash and Cash equivalents is reportedly on account of the honouring of the LC payments by the Lender.

### 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 2019<br>Audited | 31 Mar 2020<br>Audited |
|--------------------------|---------|------------------------|------------------------|
| Total Operating Income   | Rs. Crs | 42,330.66              | 46899.11               |
| OPBDITA                  | Rs. Crs | 737.04                 | 434.22                 |
| Net Profit               | Rs. Crs | 442.12                 | 403.29                 |
| Tangible Net Worth (TNW) | Rs. Crs | 4,562.76               | 4,936.71               |
| Total Debt*              | Rs Crs  | 6072.32                | 960.96                 |
| Total Debt/TNW           | Times   | 1.33                   | 0.19                   |
| Current Ratio            | Times   | 1.11                   | 1.17                   |

\* Total debt includes Loans against fixed deposit of Rs.4188.33 crs as on 31 Mar 2019 and Rs.831.21 crs as on 31 Mar 2020.

On an unaudited basis, the Company has reported a total operating income of ~Rs.934.12 Crs for 9MFY21.

**Key Financial Indicators (Consolidated):**

| Parameters               |         | 31 Mar 2019<br>Audited | 31 Mar 2020<br>Audited |
|--------------------------|---------|------------------------|------------------------|
| Total Operating Income   | Rs. Crs | 1,75,422.89            | 1,95,600.17            |
| OPBDITA                  | Rs. Crs | 1,795.85               | 1,326.86               |
| Net Profit               | Rs. Crs | 1,292.13               | 1,205.89               |
| Tangible Net Worth (TNW) | Rs. Crs | 7,469.80               | 9,806.04               |
| Total Debt*              | Rs. Crs | 6323.93                | 1285.27                |
| Total Debt/TNW           | Times   | 0.85                   | 0.13                   |
| Current Ratio            | Times   | 1.33                   | 1.39                   |

\* Total debt includes Loans against fixed deposit of Rs.4188.33 cr as on 31 Mar 2019 and Rs.831.21 crs as on 31 Mar 2020.

On an unaudited basis, the Company has reported a total operating income of ~Rs.1,93,791 Crs for 9MFY21.

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 FY20.

**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 [including withdrawal and suspended]:**

| Facility                         | Current Rating (Feb 2021) |  |  | Rating History      |                           |                          |
|----------------------------------|---------------------------|--|--|---------------------|---------------------------|--------------------------|
|                                  | Amount<br>(Rs Crs)        | Tenure   | Rating   | 2020<br>28 Mar 2020 | 2019<br>02 Jan 2019<br>^^ | 2018<br>14 Dec 2018<br>^ |
| <b>Fund Based</b>                |                           |  |  |                     |                           |                          |
| <b>FDB/FBE/BRD</b>               | 250.00                    | Long Term  | BWR A-<br>Credit Watch<br>with Negative<br>Implications  | BWR A+/<br>Stable   | BWR A+/<br>Stable         | BWR A+/<br>Stable        |
| <b>FDB/FBE/BRD-<br/>Proposed</b> | 250.00                    |  |  |                     |                           |                          |
| <b>Non Fund Based</b>            |                           |  |  |                     |                           |                          |
| <b>ILC/FLC</b>                   | 300.00                    | Short Term   | BWR A2+<br>Credit Watch<br>with Negative<br>Implications | BWR A1+             | BWR A1+                   | BWR A1+                  |
| <b>ILC/FLC-<br/>Proposed</b>     | 300.00                    |  |  |                     |                           |                          |
| <b>Total</b>                     | <b>1,100.00</b>           | <b>Rupees One Thousand One Hundred crores Only</b> |  |                     |                           |                          |

^^ 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](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

|  |   |
|--|---|
| <a href="#">General Criteria</a>             | <a href="#">Manufacturing Companies</a> |
| <a href="#">Approach to Financial Ratios</a> | <a href="#">Short Term Debt</a>         |
| <a href="#">Ratings Policy</a>               |   |

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### Rajesh Exports Limited

#### Annexure I:

#### Details of Bank Facilities rated by BWR

| Sl. No.  | Type of Facilities       | Long Term<br>(Rs. Crs) | Short Term<br>(Rs. Crs) | Total<br>(Rs. Crs) |
|--|--------------------------|------------------------|-------------------------|--------------------|
| 1  | FDB/FBE/BRD - Sanctioned | 250.00                 | -                       | 250.00             |
| 2  | ILC/ FLC- Sanctioned     | -                      | 300.00                  | 300.00             |
| 3  | FDB/FBE/BRD- Proposed    | 250.00                 | -                       | 250.00             |
| 4  | ILC/ FLC- Proposed       | -                      | 300.00                  | 300.00             |
| <b>Total (Rs. one thousand one hundred crore only)</b> |                          | <b>500.00</b>          | <b>600.00</b>           | <b>1,100.00</b>    |

*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 erstwhile consortium which have not been rated by BWR.*





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