SKY GOLD LTD
GLOBAL EXPERTISE, REGIONAL DESIGNS.
Manufacturers & Exporters of : C.Z. & Plain Gold Jewellery

4th February 2025

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400001

Scrip Code: 541967

To,
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai 400051

Trading Symbol: SKYGOLD

Subject: Intimation about Revision in Credit Rating under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Dear Sir/Madam,

In terms of Regulation 30 read with point 3 of Para A of Part A of Schedule III and Regulation 55 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and SEBI Master circular no. SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 13,2023; we wish to inform that on 3rd February 2025 the rating agency has upgraded the credit rating of the Company :

Name of the Agency	Instrument type	Rating Type	Amount ₹ in million	Rating	Rating Action
India Ratings & Research Private Limited	Fund-based working capital facilities	Long-term/ Short-term	INR 3,530	IND A-/Stable/IND A2+	Assigned
	Proposed fund-based working capital limit	Long-term/ Short-term	INR 624.09	IND A-/Stable/IND A2+	Assigned
	Term loan	Long term	INR 345.91	IND A- /Stable	Assigned

This is for your information and records.

Thanking you,
For Sky Gold Limited,
MANGESH RAMESH CHAUHAN
Digitally signed by MANGESH RAMESH CHAUHAN
Date: 2025.02.04 18:14:37 +05'30'

Mangesh Chauhan
Managing Director & CFO
DIN: 02138048
Place: Navi Mumbai

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Sky Gold's Bank Loans 'IND A-/Stable

Feb 03, 2025 | Gems | Jewellery And Watches

India Ratings and Research (Ind-Ra) has rated Sky Gold Limited's (SGL) bank facilities as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR3,530	IND A-/Stable/IND A2+	Assigned
Proposed fund-based working capital limit	-	-	-	INR624.09	IND A-/Stable/IND A2+	Assigned
Term loan	-	-	31 March 2031	INR345.91	IND A-/Stable	Assigned

Analytical Approach

Ind-Ra has taken a fully consolidated view of SGL, and its 100% wholly owned subsidiaries Star Mangalsutra Private Limited (SMPL; debt rated at 'IND A-'/Stable/'IND A2+') and Sparkling Chains Pvt Ltd (SCPL; debt rated at 'IND A-'/Stable/'IND A2+'), due to the strong operational and strategic linkages among them.

Detailed Rationale of the Rating Action

The ratings reflect strong product acceptance and increasing sale to reputed retail jewellers with further additions of large gold retail players during 1HFY25. The scale of operation grew at a CAGR of 27% over FY20-FY24; the operating margin too has been improving year-on-year but remains modest, mainly due to the nature of the business. SGL has also strengthened its corporate governance by adding strong institutional investors and increasing transparency in the governance. The ratings are, however, constrained by the SGL group's high reliance on bank debt, leading to a high net leverage amid intense competition in the gold manufacturing business.

List of Key Rating Drivers

Strengths

- Extensive experience of promoters
- Significant improvement in scale of operation along increase in installed capacity
- Ramp up in operation through inorganic growth
- Well-managed working capital cycle

Weaknesses

- Modest operating margin due to nature of operations
- Moderately leveraged credit metrics
- Customer concentration risk

- Intense competition and volatility in gold prices

Detailed Description of Key Rating Drivers

Extensive Experience of Promoters: SGL's promoters have over two decades of experience in gold manufacturing/processing business. SGL is a family-owned listed entity, and Mangesh Chauhan, Mahendra Chauhan and Darshan Chauhan are its directors and promoters.

The promoters started SGL as a partnership firm in 2005 and converted it into private limited company in 2008 to enhance growth and expansion options. On 4 October 2018, SGL was listed on the Bombay Stock Exchange Small and Medium Exchange and on 6 January 2023, it was listed on the National Stock Exchange. In November 2023, the promoters issued preferential shares to tune of INR232 million, partly from non-promoter group. This reflects SGL's ability to raise funds from the market. On 17 October 2024, SGL raised funds to the tune of INR2,700 million via qualified institutional placement (QIP). By way of QIP, SGL has added few strong institutional investors such as Motilal Oswal Mutual Funds, Kotak Mahindra Life Insurance Co. and Bank of India (IND AA+/Stable).

Significant Improvement in Scale of Operation and Installed Capacity: SGL's revenue grew at a CAGR of 27% over FY20-FY24 to INR17,455 million in FY24 from INR7,216 million in FY20, driven by consistent sales volume growth (FY24: 3,198kg; FY23: 2,417kg; FY22: 1,726kg). SGL has also enhanced its capacity to 750kg per month in FY24 from 225kg per month in FY23 considering its requirements over FY25-FY27. It has rented a new facility in Navi Mumbai including its corporate office having a size of 81,000 square feet (sf), to house its over 500 employees across India. The new facility machines are imported from Germany and Italy and can process and manufacture of all kinds of gold patterns, which were imported earlier in India can be processed domestically. In FY24, the capacity, which was used 90% in FY23, was only 36% utilised due to the capacity expansion. In FY25, the monthly volume processed/manufactured is around 226kg/month against the capacity of 1,050kg/month

Ramp Up in Operation through Inorganic Growth: SGL acquired SCPL and SMPL on 5 September 2024 as part of its expansion plans. These two companies are engaged in the business of manufacturing gold, silver and other precious metals. Post the acquisitions, SGL's capacity increased to 1,050kg per month from 750kg per month. In FY24, the revenue of SCPL and SMPL was INR2 billion and INR1.7 billion, respectively.

This acquisition will enable SGL to manufacture products such as chains and mangalsutra, which were not processed earlier. SGL has acquired SCPL and SMPL fully for INR260 million and INR239.8 million, respectively. Furthermore, the unsecured loans from directors in these entities amounting to INR210 million and INR165 million will be repaid upon board approval. This consideration will be charged by the issue of 4,17,542 equity shares of the company at an issue price of INR1,197, having a face value of INR10 per share each to the existing shareholders of SCPL and SMPL.

Well-managed Working Capital Cycle: SGL's net working capital cycle was 80 days in FY24 (FY23: 49 days; FY22: 55 days), backed by inventory days of 59 (28; 36) and receivable days of 21 (one; 20). The commodity price risk is taken by SGL, leading to a minimal gross price of around 3.5%; any inventory rick is also borne by SGL. SGL purchases bullion from different sources, majorly from leading banks through gold metal loan (GML) facilities. Compared to many peers' inventories, SGL's inventory holding is better (industry average has seen an inventory holding of 90 days and above). The large players such as Malabar Gold Limited (debt rated at 'IND A+'/Stable/'IND A1') and Kalyan Jewellers India Limited (debt rated at 'IND A+'/Stable/'IND A1+') are given a credit period of around a month while the rest broadly work on the cash-on-delivery model. SGL has to buy on cash with zero credit, but the GML facility plays a big role for this working capital gap. Any sales return is also borne by SGL; however, these have reduced over the period due to an improvement in quality, efficiency and transparency.

SGL's working capital is estimated to remain comfortable FY25 onwards, supported by the timely enhancement by the lenders.

Modest Operating Margin due to Nature of Operations: SGL is into the manufacturing and processing of gold bullion to gold jewellery and works on an asset-light model wherein the profit margin is low. The operating margin improved but remained modest at around 4.4% in FY24 (FY23: 3.1%, FY22: 2.6%). The management estimates an improvement in operating margin by 50-60 basis points in FY25 as it has installed a 2.5MW solar plant on the company's 5-acre land in

Solapur, Maharashtra which generates 180 units per month. Till FYE24, SGL was paying electricity charges between INR2 million and INR2.5 million each month which will reduce by 90%-95% as the same amount will get set off against the solar power plant generation. However, with the increase in capacity and the volume sold, the employee cost has also increased, which might restrict the improvement of operating margin in the medium term.

Moderately Leveraged Credit Metrics: SGL's credit metrics remain constrained by its modest operating margin and the long processing time, leading to a high dependence on outside borrowings. Although the metrics have improved since FY24, the interest coverage was moderate at 3.8x in FY24 (FY23: 3.4x; FY22: 2.5x; FY21: 1.6x) while the net leverage was high at 2.9x in FY24 (3.4x; 4.3x; 6.9x). The net debt has been increasing year-on-year to INR2,333 million in FY24 (FY23: INR1,254 million, FY22: INR889 million) and the interest cost to INR205 million (INR108 million, INR80 million). The net debt grew at a CAGR of 44% over FY20-FY24, higher than the revenue growth.

Customer Concentration Risk: SGL generates revenue from the sale to gold retail players; the top five customers contribute more than 55% to the gross revenue while top 10 customers contribute more than 72%. The top 10 players are the reputed brands in gold retail industry namely Malabar Gold, Kalyan Jewellers India, Joyalukkas India Pvt Ltd. SGL also caters to GRT Jewellers India Pvt Ltd, Senco Gold Limited and Khazana Jewellers Pvt Ltd.

Intense Competition and Volatility in Gold Prices: The gold manufacturing Industry is highly competitive and any significant shift in customer preference can affect the top line, if not met timely. The company's profitability is susceptible to fluctuations in forex rates, volatility in diamond prices and gold prices. SGL has to maintain a large inventory, even though partial inventory is for confirmed orders. The company will be vulnerable to fluctuations in metal prices. However, the risk is partially mitigated by SGL's prudent sourcing policy, backed by an inventory policy of replenishing a similar quantity of gold sold during the day, thereby maintaining a constant inventory level in accordance with the sales every year.

Liquidity

Adequate: SGL maintains adequate liquidity with cash and cash equivalent of INR768 million and non-trade investments of INR905.5 million in FY24. SGL reported net cash accruals of INR468 million in FY24, sufficient to serve its repayment obligation of INR34 million during the year. The company has debt repayment obligations of INR30 million each in FY25 and FY26. The bank lines were highly utilised at around 98% during the 12 months ended December 2024; however, the management has approached the lenders for an enhancement for meeting the additional working capital requirement. The cash flow from operation (CFO) remained negative at INR1,542 million in FY24 (FY23: negative INR148 million; FY22: negative INR148 million) due to the continued expansion. Ind-Ra expects the CFO to remain negative over the medium term as SGL is increasing its scale of operation on a year-on-year basis. Due to the negative CFO and continuous capex, the free cash flow (FCF) remained negative at INR1,750 million in FY24 (FY23: negative INR181 million; FY22: negative INR141 million). Ind-Ra expects the FCF to remain negative as the management might incur further capex to grow its scale of operation over the medium term.

Rating Sensitivities

Positive: Events that could, individually or collectively, lead to a positive rating action include:

- a steady improvement in the scale and profitability, the EBITDA sustaining over 5% and SGL achieving positive cash flow from operations
- a reduction in reliance on outside borrowings leading to an improvement in the credit metrics with the net leverage improving below 1.75x

Negative: Events that could, individually or collectively, lead to a negative rating action include:

- deterioration in the operational performance and/or a reduction in the synergies within the group entities and/or a dip in the profit margins
- any unexpected debt-funded capex, leading to negative FCF and the net leverage exceeding 2.75x, on a sustained basis
- any further funds raised from the market, the promoters reducing their stake and leading to any management risk, or a weakening of corporate governance

About the Company

SGL, established in 2005 in Mumbai, manufactures and markets gold jewellery. It operates on an asset-light, B2B model, distributing its products to corporate gold retailers, midrange jewellers, and boutique stores.

SMPL and SCPL are engaged into the manufacturing of chains with 150 kg/month capacity each.

Key Financial Indicators

Particulars (Consolidated)	1HFY25	FY24	FY23
Revenue (INR million)	14,918	17,455	11,538
EBITDA (INR million)	760	772	363
EBITDA (%)	5.1	4.4	3.1
Interest coverage (x)	4.2	3.8	3.4
Net leverage (x)	2.2	2.9	3.4
Source: SGL, Ind-Ra			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Fund-based working capital facilities	Long-term/Short-term	INR4,154.09	IND A-/Stable/IND A2+
Term loan	Long term	INR 345.91	IND A-/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process