

August 19, 2010

Shri Umesh Parekh
Managing Director
Shree Ganesh Jewellery House Ltd.
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Confidential

Dear Sir,

**Review of rating of existing instruments/ facilities and
Rating for proposed Non-convertible Debentures (NCD) programme**

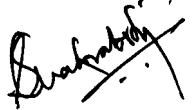
Please refer to our rating letters on the captioned subject.


2. The rationale for the ratings is attached as *Annexure - I*. Please note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above ratings is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as *Annexure - II*.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by Tuesday, August 24, 2010, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


(S. Chakraborty)
Dy. Manager


(S. Chatterjee)
Sr. Manager

Encl. – As above

Shree Ganesh Jewellery House Ltd (SGJHL)

Rationale

Ratings

Facilities/instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Non-convertible Debenture*	250.0	'CARE A+' (Single A plus)	Assigned
Short term bank facilities	2,000.0	'PR1+' (PR One plus)	Reaffirmed
Short-term debt (including Commercial Paper)	200.0	'PR1+' (PR One plus)	Reaffirmed

*The proposed NCD would be repaid in five equal half yearly installments after a moratorium of three years from the date of placement

Rating Rationale

The aforesaid ratings continues to derive strength from rich experience of the promoters with satisfactory track record, established brand name, internationally accepted designs with strong presence in overseas market, strong skilled craftsmen base, the status of a nominated agency by Govt of India (GoI) for direct import of gold, strategic location of manufacturing units at Special Economic Zone (enjoying various tax holidays), comfortable financial position with continuous growth in revenue & profit level and high entry barrier in the gold jewellery market. Notable improvement in the profitability parameters in FY10, equity infusion by way of IPO issue in March, 2010 and substantial improvement in solvency related parameters post-IPO also support the ratings. The ratings also factor in the company's concentration of sales in Middle East - which witnessed economic turbulence in the past, low margin nature of business, dominance of unorganised sector players in domestic jewellery market, seasonality of demand, risks associated with implementation of the ongoing project and stiff competition from existing players in the domestic retail jewellery market. Future prospects of the gem & jewellery (G&J) industry, sustainability of turnover level & margins and completion of the proposed projects in a timely manner will remain the key rating sensitivities.

Company Background

SGJHL, incorporated in August 2002, belongs to Shree Ganesh Group of Kolkata which is engaged in trading and manufacturing & export of plain & studded gold jewellery and diamond jewellery over the last five decades. The company markets its jewellery

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications



products under the brand name, 'GAJA'. It is one of the largest exporters of the handcrafted gold jewellery from India. The current promoters of the group are Shri Nilesh Parekh and Shri Umesh Parekh, two brothers, having more than two decades of experience in gold jewellery business. Credit Suisse PE Asia Investments (Mauritius) Limited and Bennett Coleman & Co. Ltd. hold about 11.7% equity stake, in aggregate, in SGJHL.

In March, 2010, SGJHL has successfully raised about Rs.315 crore through its IPO issue to utilise the proceeds for the planned expansion in retail business and to meet its long term working capital requirement.

Operations

The company deals in handcrafted/machine-made gold & diamond jewellery (plain & studded), gold enamelled jewellery and hallmarked gold jewellery. Currently, the company has 30,000 kgs p.a of gold jewellery manufacturing capacity at Manikanchan SEZ, Kolkata. In FY10, the company achieved a production of around 12,000 kgs of gold jewellery. Besides, in FY10 the company started a new vertical in diamond jewellery manufacturing in the same premises, with installation of a fully integrated casting diamond jewellery unit.

SGJHL has been able to employ skilled craftsmen (with vast traditional knowledge & expertise) at cheaper cost, as the manufacturing units are located in West Bengal (where skilled labour & craftsmen for handcrafted jewellery are abundantly available).

In FY10, SGJHL's gross revenue increased by about 37%. This can be attributed to the increase in gold prices over the said period, being in line with the industry trend, and notable increase in sale of precious & semi-precious stones (mainly diamonds). SGJHL caters mainly to the export market (96% of gross sales in FY10). In FY10, sales of gold jewellery & articles, the major contributor to total income, increased by 9.4%, due to hike in gold prices globally & sharp depreciation of rupee during H2FY10. In FY10, diamond jewellery sales increased to Rs.638.0 crore from Rs.170.0 crore in FY09 due to commencement in operation of new diamond jewellery unit at Manikanchan SEZ from April, 2009.

Its major customers are jewellery wholesalers of Middle East countries. However, it is gradually reducing its dependence on Middle East by diversifying into new geographies such as Singapore and Hong Kong. Further, the company has also forayed into retailing

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in India through tie-ups with large retail chains and it is now planning to open a number of its own retail outlets over a span of next three years.

Gold, the major raw material, is generally procured on fixed basis or unfixed basis and the cost of the same is pass through. Hence, the company is largely insulated from the fluctuation in gold prices. It imports majority of its gold requirement from The Bank of Nova Scotia (BNS), Al Marhaba Trading and through few canalizing agencies mainly State Trading Corporation (STC). Further, the company has been granted the status of a “nominated agency” under the Foreign Trade Policy of GoI. This allows SGJHL to import precious metals (gold) directly and thereby eliminate the costs on intermediaries.

Ongoing projects

Identifying the growing demand for handcrafted/machine-made jewellery (gold & diamond), the company is increasing its manufacturing capacity through setting up new units (Domjur & Mondalpara, West Bengal) and expansion in capacity at its existing unit (Manikanchan SEZ). Besides, SGJHL has chalked out a detailed plan to strengthen its foothold in the domestic retail market and intends to open 49 retail outlets for retailing of products manufactured in its proposed plants at Domjur & Mondalpara. The entire project cost (approx Rs.213 crore) is being met out of the IPO proceeds. All the projects, in entirety, are expected to be completed by March, 2013. The projects are progressing as per schedule. Till June 2010, SGJHL has incurred Rs.77.0 crore on the project.

Financial Performance

Net sales witnessed a y-o-y growth of about 37% in FY10 as the company strengthened its presence in the export market through new customers acquisitions, as well as increased quantum of sales to the existing customers. Further, increase in gold prices & higher sales of diamond jewellery also contributed significantly to net sales.

PBILDT, increased at a relatively higher rate vis-à-vis total operating income mainly due to hike in other operating income (interest income from fixed deposits) & lower increase in cost of sales (benefits arising out of the newly introduced machine made jewelleryes). Consequently, PBILDT margin increased.

PAT (after defd. tax) however, witnessed a lower growth, despite substantially higher increase in PBILDT, due to non-operational expenses (forex loss) coupled with lower non-operational income. While the forex loss was due to cancellation of a high value order, recurrence of such even in future is unlikely given the mitigation measures initiated by the company. However, it might get exposed to exchange fluctuation risk due to its gradual foraying into retail market (which is not order driven).

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GCA stood comfortably at Rs.168.0 crore during FY10 and improved over FY09. Interest coverage improved in FY10 (due to lower increase in interest expenses vis-à-vis increase in PBILDT) and was comfortable at 3.38.

Long term debt equity ratio was nil as on the last three account closing dates. Despite accretion of profits to reserve, overall gearing ratio deteriorated marginally as on March 31, 2010 due to higher borrowings. However, there was infusion of equity through IPO in March, 2010 (proceeds received during first week of April, 2010) and considering the same overall gearing improves to 1.42 as on March 31, 2010.

Current ratio, was adequate as on Mar.31, 2010. Average collection period deteriorated to 132 days in FY10, from 94 days in FY09 mainly due to higher sales in Q4FY10 (30% of total sales, as against 19% in Q4FY09). However, major portion of outstanding receivables as on Mar.31, 2010 has since been received.

The unaudited working results for the quarter ended Jun.30, 2010 (Q1FY11) indicate significant improvement in turnover (by 123%) and PBILDT level & margin over Q1FY10. Substantial increase in PBILDT (by 104%) vis-à-vis increase in capital charge led to a notable increase in PAT level, interest coverage & GCA.

Industry outlook

The Gems and Jewellery industry has an important role in the Indian economy. It is a leading foreign exchange earner for Indian economy. India is the largest consumer of gold in the world. It contributed around 16% of India's exports during FY10.

In FY10, exports growth for the G&J industry grew robustly at 16% y-o-y to US\$28.41 bn (Rs.1,344.1 bn). Gold jewellery exports from India grew at a CARG of about 25% over the past five years. India's exports of gold jewellery were USD 9.42 bn for FY10. The growth in exports can be attributed to revival in demand from major developed countries, coupled with increased consumption pattern from emerging markets like China and Russia. UAE is the largest exporting destination for India's gold export accounting for 56% of exports (in USD), followed by USA, Singapore and Hong Kong. CARE Research expects the export market for the diamond jewellery to grow at 20% y-o-y in the next five years ending Mar.31, 2015, as compared to 10% y-o-y growth expected in gold jewellery.

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Financial results

Y.E./As on March 31,	(Rs. crore)		
	2008 (12 m, A)	2009 (12 m, A)	2010 (12 m, A)
Working Results			
Net Sales	1,276.0	2,150.0	2,952.3
Total operating income	1,280.7	2,189.2	2,999.2
Total income	1,283.0	2,218.2	3,002.4
PBILDT	106.9	172.5	266.5
Depreciation	1.6	1.8	2.3
Interest	19.3	66.2	78.2
Profit before tax	88.4	133.4	171.0
PAT- after defd. tax	87.2	132.5	165.9
Gross Cash Accruals (GCA)	87.6	134.2	168.0
Financial Position			
Equity share capital	21.4	21.4	48.5
Tangible networkth	271.5	401.0	529.0
Total capital employed	653.3	1,288.2	1,730.7
Key ratios			
Growth			
Growth in total income (%)	55.10	72.89	35.35
Growth in PAT (after def. tax) (%)	71.47	51.93	25.24
PBILDT / Total operating income (%)	8.34	7.88	8.88
PAT (after defd. tax)/Total income (%)	6.79	5.97	5.52
ROCE (%)	23.94	17.73	17.58
Debt equity ratio	0.00	0.00	0.00
Overall gearing ratio	1.41	2.21	2.27
Adjusted overall gearing ratio	1.41	2.21	1.42*
Net overall gearing ratio\$	1.09	1.41	1.14*
Interest coverage	5.47	2.58	3.38
Long term debt/ GCA	0.01	0.00	0.00
Current ratio	1.48	1.36	1.27
Quick ratio	1.34	1.29	1.17
Average collection period (days)	91	94	132
Average creditors period (days)	30	22	48
Average finished goods inventory period (days)	7	7	10
Average inventory period (days)	16	13	17

* including money raised through IPO during March 10 (proceeds received in first week of April 10)
\$ adjusting buyers credit, fully backed by FD

Adjustments

- Outstanding bill discounted, shown as contingent liability, has been added to bank borrowings and sundry debtors for the above analysis
- Outstanding amount of fully convertible debenture & fully convertible preference share as on Mar.31, 2008 & Mar.31, 2009 have been considered as a part of net worth for this analysis, as the same were converted into equity in August, 2009.

DISCLAIMER

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most issuers of securities and entities whose bank facilities are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/ securities issued.