



SMERA RATINGS LIMITED

Abhushan Ornaments Private Limited (AOPL)

**Rating
Rationale****November 28, 2014**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	17.00	SMERA BB-/ Stable (Assigned)
Cash Credit (proposed)	8.00	SMERA BB-/ Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) to the Rs.25.00 crore bank facilities of Abhushan Ornaments Private Limited (AOPL). The outlook is '**Stable**'. The rating draws comfort from the company's experienced management and strong revenue growth. However, the rating is constrained by the company's low profitability margins and below-average financial risk profile. The rating is further constrained by the susceptibility of the company's profit margins to fluctuations in gold prices amidst intense competition in the wholesale jewellery business. The rating notes that the company's business is exposed to unfavourable changes in government policy on gold imports.

AOPL was established as a proprietorship concern in 1996 and converted into a private limited company in October 2008. AOPL is engaged in manufacturing and trading of gold jewellery. The company benefits from its experienced management. Mr. Sanjay Jain, director of AOPL, has around two decades of experience in the gems and jewellery industry. AOPL's revenues have grown at a strong compound annual growth rate (CAGR) of 66 per cent during FY2008-09 (refers to financial year, April 01 to March 31) to FY2013-14. Moreover, the company's operating income increased from Rs.190.99 crore in FY2012-13 to Rs.295.50 crore in FY2013-14 on account of healthy growth in sales volumes.

AOPL's operating profit margin is low at 0.70 per cent in FY2013-14. The company's below-average financial risk profile is marked by leverage of 2.07 times as on March 31, 2014 and interest coverage ratio of 1.27 times in FY2013-14. AOPL's operations are working capital-intensive. The company's average utilisation of bank limit is high at ~98 per cent during the six months ended October 31, 2014. AOPL's profit margins are susceptible to volatility in gold prices. The company faces intense competition from several players in the gold jewellery industry. AOPL's business is also exposed to unfavourable changes in government's policy on gold imports.

Outlook: Stable

SMERA believes AOPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company achieves significant improvement in profit margins while maintaining healthy revenue growth, or in case of sustained improvement in the company's capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in

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case of decline in the company's revenues and profit margins, or in case of major deterioration in the company's capital structure on account of higher-than-expected working capital requirements.

About the company

AOPL was established as a proprietorship concern in 1996 and converted into a private limited company in October 2008. AOPL is promoted by Mr. Sanjay Jain and Mr. Rajesh Jain. The company is engaged in manufacturing and trading of gold jewellery. AOPL does not have its own processing unit. The company outsources the processing activity to job workers in Zaveri Bazaar, Mumbai.

For FY2013-14, AOPL reported profit after tax (PAT) of Rs.0.23 crore on operating income of Rs.295.50 crore, as compared with PAT of Rs.0.22 crore on operating income of Rs.190.99 crore in FY2012-13. AOPL's tangible net worth stood at Rs.8.24 crore as on March 31, 2014, as compared to Rs.3.51 crore a year earlier.

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