

December 23, 2015

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	22.00 (enhanced from Rs.17.00 crore)	SMERA BB-/Stable (Reaffirmed)
Cash Credit (Proposed)	3.00 (reduced from Rs.8.00 crore)	SMERA BB-/Stable (Reaffirmed)

SMERA has reaffirmed a long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs.25.00 crore bank facilities of Abhushan Ornaments Private Limited (AOPL). The outlook is '**Stable**'.

The rating continues to remain constrained by the company's low profitability margins and below-average debt-protection metrics. The rating is further constrained by the susceptibility of the company's profit margins to fluctuations in gold prices amidst intense competition in the jewellery business. The rating notes that the company's business is exposed to changes in government policy on gold imports. However, the rating continues to draw comfort from the company's experienced management, strong revenue growth and increase in net worth.

Update

AOPL reported revenues of Rs.406.32 crore in FY2014-15, as compared to Rs.295.50 crore in FY2013-14. For the period April 2015 to November 2015, the company has reported revenues of Rs.298 crore. SMERA expects that the company is likely to register revenues of Rs.480-Rs.500 crore during FY2015-16.

The tangible net worth stood at Rs.14.08 crore as on March 31, 2015, as compared with Rs.8.24 crore a year earlier due to infusion of capital worth Rs.1.20 crore and share application money (pending allotment) worth Rs.3.00 crore along with retention of profits. As a result AOPL's leverage (debt-equity ratio) has improved to 1.57 times as on March 31, 2015 as compared to 2.07 times in the previous year.

AOPL's interest coverage ratio is weak at 1.26 times in FY2014-15 as against 1.27 times in FY2013-14. The company's return of capital employed stood low at 9.77 per cent in FY2014-15 as against 11.09 per cent in the previous year. SMERA believes AOPL's debt coverage indicators are likely to remain below-average over the medium term.

AOPL's operations continue to remain working capital-intensive. As a result, the company's cash credit limit of Rs.22.00 crore is fully stretched during the period April 2015 to October 2015.

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Rating Sensitivity

- Sustained improvement in operating profit margin and financial risk profile
- Working capital management and bank limit utilization

Outlook – Stable

SMERA believes the company will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving a sustained improvement in profit margins or in case of improvement in the company's capital structure and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues and profit margins or in case of 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 FY2014-15, AOPL reported profit after tax (PAT) of Rs.0.43 crore on operating income of Rs.406.32 crore, as compared with PAT of Rs.0.23 crore on operating income of Rs.295.50 crore in FY2013-14. AOPL's tangible net worth stood at Rs.14.08 crore as on March 31, 2014, as compared to Rs.8.24 crore a year earlier.

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