

Press Release

Abhilasha Jewellers Private Limited

March 28, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 85.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Negative (Downgraded & Outlook revised from Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 85.00 cr. bank facilities of Abhilasha Jewellers Private Limited (AJPL). The outlook revised to '**Negative**' from '**Stable**'.

The rating revision mainly reflects significant decline in the operating performance of the group in FY2019. The group's operating revenues and operating profitability has significantly impacted in current fiscal year. The working capital of the group is expected to elongate in FY2019. The challenges faced by the group in maintaining healthy liquidity profile reflected in persistence high level of bank limit utilisation. The financial risk profile and debt protection metrics are also expected to deteriorate in FY2019. The group's operating revenue stood at Rs.1057.53 crore for 10MFY2019. Acuite expects this liquidity pressure to persist till the group is able to tie up for increased bank limits to commensurate with maintaining its growth in near to medium term.

The Chennai-based Abhilasha Jewellers Private Limited was incorporated in 2003 by Mr. Prakash Chand Jain and Mr. Abhilash Kumar Mutha. The company is engaged in the manufacture and export of gold, silver and diamond jewellery. It also undertakes job work for Tanishq jewellery and Reliance Jewels.

Analytical Approach

For arriving at the rating, Acuite has considered the full consolidation of PGPP and that of its wholly owned subsidiary viz. Prakash Gold Palace (FZE) and its associate company, Abhilasha Jewellers Private Limited (AJPL) together referred to as the PGP Group. Further, Acuite has consolidated the business and financial risk profiles of the group. The consolidation is in view of the common ownership and operational linkages within the group. Extent of Consolidation: Full

Outlook: Negative

Acuite believes that the outlook on the group is 'Negative' as the credit profile is expected to be impacted by continuous high utilisation of working capital facilities with the bank coupled with elongated working capital cycle over near to medium term. The rating may be downgraded in case of re-occurrence of such irregularities and continued moderation in liquidity profile and its profitability margins, or further deterioration in debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the group is able to show significant improvement in revenue and debt protection metrics while efficiently managing its working capital cycle.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The Promoter and Managing Director, Mr. Prakash Chand Jain has experience of over four decades in the gems and jewellery industry while Mr. Abhilash Mutha has experience of over two decades. The promoters are well supported by an experienced second line of management including Mrs. Mamthaa Mutha, Mr. Abhilash Mutha, Mr. Murugan Pillai. The promoters have been able to establish healthy relations with reputed clients such as Kalyan Jewellers, Lalita Jewellers, Avr Swarna Mahal Jewellery Private Limited to name a few.

• **Moderate financial risk profile despite healthy net worth base**

The financial risk profile of the group has remained moderate until FY2018 despite healthy net worth base. However, the financial risk profile of the group is expected to significantly impact in current fiscal year. The net worth of the group stood healthy at Rs.175.14 crore as on 31 March 2018 (PY: Rs.160.05 crore). The gearing (debt-equity) stood at 1.93 times as on 31 March 2018 as against 2.22 times as on 31 March 2017. Interest Coverage ratio stood at 1.83 times for FY2018 (PY: 1.67 times). Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.34 times as on 31 March 2018. Debt-EBITDA has deteriorated to 6.90 times for FY2018. Further, in FY2019, the Debt-EBITDA is expected to further deteriorate on account of high utilisation and decline in the EBITDA margins. Debt-EBITDA is expected to remain at a range of 8-9 times in FY2019. Any further higher-than-expected deterioration in financial risk profile of the group will remain a key rating sensitivity factor.

Weaknesses

• **Intermittent irregularities amidst intensive working capital operations**

Recent credit events in the group have resulted in reduction of working capital limits by the bankers. The working capital cycle of the group has been elongated in FY2019 and with the reduction in the bank facilities, the group facing challenges with regards to maintaining its liquidity position, thereby resulting in high bank limit utilisation. The inventory and debtor levels stood comfortable until FY2018, but have significantly increased as on January, 2019 resulting in high average bank limit utilisation of the group which remained at ~98 per cent for the period May 2018 to January 2019. There have also been instances of intermittent irregularities in the bank limit utilisation. Acuite believes this liquidity pressure is expected to persist till the group is able to tie up for increased bank limits to commensurate with maintaining its growth in near to medium term.

• **Uneven revenue trend and operating margins**

The group's revenues profile has remained volatile for last three years ending FY2018. The group registered operating revenues of Rs.1673.30 crore in FY2018 as against Rs.1600.60 crores in FY2017 as against Rs.1837.42 crore in FY2016. Further, the operating margins of the group has also remained uneven and stood at 2.78 per cent for FY2018 as against 3.07 per cent for FY2017 as against 2.76 per cent for FY2016. However, the operating margins of the group for 10MFY2019 has further declined and stood at 2.67 per cent. The group's ability to scale up its business while maintaining its profitability in the event of reduction of working capital limits by the bankers will remain a key rating sensitivity factor.

• **Exposed to volatility in raw material prices, foreign exchange fluctuation risk**

The raw material cost of the group constitutes to ~96 per cent of its total operating income. The group's profitability is susceptible to gold price movements. The group also operates in a highly competitive and fragmented gems and jewellery industry and faces competition from a large number of organised as well as unorganised players. The group is exposed to volatility in gold prices. The raw material is procured from the domestic and international market. The group derives ~75 per cent of its revenues from export sales. Hence, the profits are susceptible to fluctuations in forex rates.

Liquidity position

The group has weak liquidity marked by elongation in working capital in current fiscal year, reduction in working capital facilities by the banker leading to high working capital utilisation of the group. The group's inventory and debtor levels as on 31 January 2019 has increased. However, the group does not avail any long term loan and is not expected to avail any in near to medium term. The cash accruals of the group are expected to get impacted in FY2019 and remain at a range of Rs.7-10 crore during FY2019-21 as against while its repayment obligation is expected to remain nil. The current ratio of the group stood at 1.30 times as on 31 March 2018. The ability of the group to improve its liquidity profile while managing its working capital cycle will be key rating sensitivity.

About the Group - Key Financials (Consolidation)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1,673.30	1,600.60	1,837.42
EBITDA	Rs. Cr.	46.44	49.19	50.79
PAT	Rs. Cr.	15.08	15.32	18.80
EBITDA Margin	(%)	2.78	3.07	2.76
PAT Margin	(%)	0.90	0.96	1.02
ROCE	(%)	9.35	10.15	11.38

Total Debt/Tangible Net Worth	Times	1.93	2.22	2.49
PBDIT/Interest	Times	1.80	1.67	1.86
Total Debt/PBDIT	Times	6.90	6.76	6.50
Gross Current Assets (Days)	Days	114	121	95

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <http://acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Feb-18	Cash Credit	Long term	80.00	ACUITE BBB / Stable (Reaffirmed)
	Proposed Cash Credit	Long term	5.00	ACUITE BBB / Stable (Reaffirmed)
21-Oct-16	Cash Credit	Long term	80.00	ACUITE BBB / Stable (Downgraded)
	Proposed Cash Credit	Long term	5.00	ACUITE BBB / Stable (Assigned)
16-Jul-15	Cash Credit	Long term	68.00	ACUITE BBB+/Stable (Assigned)
	Proposed Cash Credit	Long term	12.00	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE BB+ / Negative (Downgraded & Outlook revised)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Negative (Downgraded & Outlook revised)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Kashish Shah Senior Analyst - Rating Operations Tel: 022-49294031 kashish.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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