Press Release

Abhilasha Jewellers Private Limited

May 07, 2020

Rating Downgraded

Total Bank Facilities Rated*	Rs. 85.00 Cr.
Long Term Rating	ACUITE BB/Stable (Downgraded)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to **'ACUITE BB' (read as ACUITE double B)** from **'ACUITE BB+' (read as ACUITE double B plus)** and has assigned the short term rating of **'ACUITE A4+' (read as ACUITE four plus)** on the Rs.85.00 cr. bank facilities of Abhilasha Jewellers Private Limited (AJPL). The outlook revised to **'Stable'** from **'Negative'**.

Reason for Downgrade

The rating downgrade is mainly on account of significant decline in the operating performance of the group and expected slowdown in the gems and jewellery segment on account of outbreak of COVID – 19. The group's operating revenues and operating profitability has significantly impacted in FY2019 and FY2020. The group's operating revenue stood at Rs.1391.99 crore for FY2019 as against Rs.1673.30 crore in FY2018. Also, the group has achieved a revenue of around Rs.850 crore for year ending March 2020. Further, the working capital cycle of the group has also deteriorated in FY2019 marked by Gross Current Asset days of 122 in FY2019 as against 114 in the previous year. This has led to high bank limit utilization of ~93 per cent in PGPL and ~99 per cent in AJPL for 10 months ending January 2020. The group's operations have been severely impacted on account of the ongoing COVID – 19 crisis. Against the uncertain backdrop of COVID – 19, Acuité believes that the company's operational performance will be significantly impaired over at least 1-2 quarters even in the best case scenario. Further, Acuité believes that the resumption of normalcy will be a gradual process. The continuing domestic economic slowdown which has significantly aggravated by the COVID – 19 led disruption may have a prolonged impact on the spending patterns of the consumers. Acuité believes, the challenges will be more acute in the discretionary segments which will directly impact the revenues and profitability for players like Prakash Group.

About the company

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, Acuité has considered the full consolidation of PGPPL 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, Acuité 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

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, and 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 group has a moderate financial risk profile marked by healthy net worth of Rs.191.53 crore as on 31st March 2019 as against Rs.175.14 crore as on 31st March 2018. The gearing (Debt-Equity) of the group stood comfortable at 1.59 times as on 31st March 2019 as against 1.93 times as on 31st March 2018. The total debt of the group as on 31st March 2019 stood at Rs.305.28 crore which comprises of long term debt of Rs.0.02 crore and short term debt of Rs.305.26 crore. Interest Coverage Ratio of 1.82 times in FY2019 as against 1.80 times in FY2018 and DSCR of 1.56 times in FY2019 as against 1.59 times in FY2018. NCA/ TD stood same at 0.05 times as on March 31, 2019 as well as on March 31, 2018. Further, TOL/TNW (Total outside Liabilities/Tangible Net worth) ratio stood at 1.78 times in FY2019 as against 2.34 times in FY2018. Any further higher-than-expected deterioration in financial risk profile of the group will remain a key rating sensitivity factor.

Weaknesses

- **Working capital intensive nature of operations**
  Prakash Group operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 122 days for FY2019 as against 114 days in FY2018. This is majorly on account of high inventory days of 73 for FY2019 as against 64 days in the previous year. High GCA days has led to high utilization of bank lines for both PGPL and AJPL which stood at an average of ~92 per cent and ~99 per cent respectively for last 10 months ending January 2020. Further, Acuité believes on account of outbreak of COVID – 19, this is expected to slowdown the discretionary spending of the consumers and hence the revenues and profitability of the group is expected to be impact and the working capital cycle is also expected to elongate majorly on account of pilling up in inventory levels. Further, adequate maintenance of liquidity will be a key sensitivity factor.

- **Uneven revenue trend and operating margins**
  The group's revenues profile has remained volatile for last three years ending FY2019. The group is experiencing a declining scale of operations marked by revenue of Rs.1391.99 crore in FY2019 as against Rs.1673.30 crore in FY2018. The revenue in FY2019 has declined by 16.81 percent from the previous year. Further, the group has achieved a revenues of ~Rs.850 crore for FY2020. The operating margins stood at 3.62 percent in FY2019 as against 2.78 percent in FY2018. PAT margin has improved from 0.90 percent in FY2018 to 1.12 percent in FY2019. Acuité believes, the revenues of the group is expected further decline in FY2021 on account of outbreak of COVID – 19 followed by lockdown across the nation. This will impact, discretionary spending of the consumers coupled with significant increase in gold prices.

- **Susceptibility to timely revival of consumer spending amidst the ongoing economic slowdown; COVID -19 like calamities and intense competition impose near term challenges**
  The group has a presence in gems and jewellery segment, the business profile is linked to level of discretionary spending pattern of the consumer. Any improvement in the economic parameters such as per capita income, high level of disposable income, improved job creation etc. leads to higher level of spending. Conversely, in the event of prolonged economic slowdown due to myriad factors like natural calamities, there could be job losses and consequently slowdown in discretionary spending by the consumers. While the challenges will be more acute in the discretionary segments, even players like Prakash Group who has a presence on Gems and jewellery Sector will not be insulated from these economic events. The competition in the segment will have a bearing on the future growth trajectory of such players.
  The raw material cost of the group constitutes to ~94.37 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.

Liquidity position: Stretched

The group's liquidity is stretched 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. 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 is expected to remain in the range of Rs.7 crore - Rs.8 crore for the period FY2021 and FY2022 as against no long term repayment. The group maintains unencumbered cash and bank balances of Rs.7.94 crore as on March 31, 2019. The current ratio stands modest at 1.39 times as on March 31, 2019. The average bank limit utilization for the past 10 months ending January 2020 is ~ 92 percent for PGPL and ~99 per cent for AJPL. The ability of the group to improve its liquidity profile while managing its working capital cycle will be key rating sensitivity.

Outlook: Stable

Acuité believes that the outlook of the group will remain stable over the medium term on account of its experienced management and track record of operation and moderate financial risk profile. The outlook may be revised to 'Positive' if the group achieves higher-than-expected revenue and profitability while maintaining working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected decline in revenue, profit margins or deterioration in working capital cycle and financial risk profile leading to liquidity pressures.

About the Group - Key Financials (Consolidation)

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1391.99	1,673.30
PAT	Rs. Cr.	15.55	15.08
PAT Margin	(%)	1.12	0.90
Total Debt/Tangible Net Worth	Times	1.59	1.93
PBDIT/Interest	Times	1.82	1.80

Status of non-cooperation with previous CRA

None

Any other information

None

Applicable Criteria

- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-59.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-Mar-2019	Cash Credit	Long term	80.00	ACUITE BB+ /Negative (Downgraded)
	Proposed Cash Credit	Long term	5.00	ACUITE BB+ /Negative (Downgraded)
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	58.00	ACUITE BB / Stable (Downgraded & Outlook revised)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	23.58	ACUITE BB / Stable (Downgraded & Outlook revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.42	ACUITE A4+ (Assigned)

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