

Mustafa Gold Mart: Assigned

Facility	Amount (Rs Crore)	Rating/Outlook
Cash Credit	10.00	SMERA B+/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs.10.00 crore bank facility of Mustafa Gold Mart (MGM). The outlook is '**Stable**'.

The rating derives support from the firm's operational track record, experienced management and moderate financial risk profile. However, the rating is constrained by the uneven revenue trend in a highly competitive and fragmented industry. The rating also factors in the uneven profit margins due to exposure to raw material price volatility risk and working capital intensive operations.

The Chennai-based MGM is a proprietorship firm engaged in the retailing of gold, platinum, silver and diamond studded ornaments. The firm benefits from its experienced management. Mr. Mustaq Ahmed (Proprietor) has been in the aforementioned business for around 17 years. The financial risk profile is moderate marked by low gearing of 0.14 times as on March 31, 2015 and interest coverage ratio of 3.07 times for FY2014-15.

However, MGM's operating income has been uneven for the period under study. The same declined by 17 per cent in FY2013-14 over FY2012-13. After a marginal increase of ~7 per cent in FY2014-15 to Rs.70.65 crore from FY2013-14, the firm registered revenues of ~Rs.54 crore (provisional). The operating profit margins increased from 3.01 per cent in FY2013-14 to 5.85 per cent in FY2014-15. However, the same remains susceptible to volatility in raw material prices. The return on capital employed has remained low at 5.30 per cent in FY2014-15 and 6.67 per cent in FY2013-14 due to working capital intensive operations. The firm has high inventory days of around 459 in FY2014-15. About 80 to 90 per cent of the working capital limits have been utilised for the six months ended March 31, 2016.

Rating Sensitivity Factors

- Scaling up operations while maintaining profitability
- Efficient working capital management

Outlook-Stable

SMERA believes that MGM will maintain a stable outlook during the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers healthy growth in revenues while registering sustained improvement in profit margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

MGM, a proprietorship firm established in 1999 by Mr. Mustaq Ahmed, is engaged in the retailing of gold, platinum, silver and diamond studded ornaments through its showroom (4000 square feet) at Chennai. The overall operations are managed by Mr. Ishtiaq Ahmed (CEO).

For FY2014-15, MGM reported profit after tax (PAT) of Rs.2.64 crore on operating income of Rs.70.65 crore, as compared with PAT of Rs.3.67 crore on operating income of Rs.66.74 crore for FY2013-2014.

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ABOUT SMERA

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