

Press Release

Nikita Jewellery Private Limited (NJPL)

18 January, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.9.44 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of Nikita Jewellery Private Limited (NJPL). The outlook is '**Stable**'.

NJPL, incorporated in 2002, is a Mumbai-based company engaged in the manufacturing and export of gold, silver and diamond studded jewellery.

List of key rating drivers and their detailed description

Strengths:

Long track record and experienced management: The management is headed by Mr. Ashok Kumar Daga, Mrs. Sushila Kumari Daga and Mr. Abhinav Ashokkumar Daga who possess experience of around two decades in the gems and jewellery industry.

Healthy profitability: NJPL's profit margins are marked by healthy operating margin of 18.51 percent in FY2016 as against 18.92 percent in FY2015. The PAT margin declined to 8.36 percent in FY2016 from 9.21 percent in FY2015 due to increase in cost of sales as a percentage of sales. However, it remains comfortable. The RoCE stood at 21.40 percent in FY2016.

Above average financial risk profile: The financial risk profile is above average marked by comfortable gearing and coverage indicators. The gearing (debt to equity) ratio stood at 0.26 times as on March 31, 2016. The total debt of Rs.6.58 crore mainly includes working capital borrowings. The interest coverage stood at 9.14 times and DSCR at 5.31 times in FY2016 compared to interest coverage of 10.64 times and DSCR of 6.65 times in FY2015.

Weaknesses:

Modest scale of operation: NJPL reported decline in operating income to Rs.38.40 crore in FY2015-16 from Rs.43.77 crore in FY2014-15 on account of lower demand. The company registered revenue of Rs.19.76 crore for 8MFY2016-17.

Significant customer and geographical concentration risks: NJPL's has high customer concentration risk as around 89 percent of revenue is from Gems One Corporation, USA. Besides, with most clients located at USA, the company is exposed to geographical concentration risk as well. However, the risk is mitigated to a certain extent since NJPL has been dealing with Gems One Corporation, USA for over a decade.

Working capital intensive operations: The operations are working capital intensive reflected in the working capital cycle of 249 days in FY2015-16 as against 242 in FY2014-15. The deterioration in working capital cycle is mainly on account of stretch in debtors from 209 days to 233 days in FY2015-16. The Gross current assets (GCA) stood at 315 days in FY2015-16 as against 288 days in FY2013-14.

Profitability exposed to volatility: NJPL's profitability is susceptible to volatility in the prices of gold, silver and diamond. Any movement in prices could impact profitability. While around 99 per cent revenue is from exports, about 5 per cent of the purchases are imported, thus exposing the company to foreign exchange fluctuation risk for unhedged exports and imports.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of NJPL.

Applicable Criteria

- Manufacturing Entities: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that NJPL's outlook will remain stable owing to the promoters' experience in the gems and jewellery industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while diversifying its customer base. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues or profitability or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Company

NJPL, incorporated in 2002, is a Mumbai-based company promoted by Mr Ashok Kumar Daga, Mr Abhinav Kumar Daga and Mrs Sushila Kumari Daga. The company is engaged in the manufacture and export of jewellery (gold, silver, diamonds) at Mumbai. The products include rings, ear rings, pendants and bracelets.

For FY2015-16, NJPL reported net profit after tax (NPAT) of Rs. 3.21 crore on operating income of Rs.38.40 crore as compared to NPAT of Rs.4.03 crore on operating income of Rs.43.77 crore in FY2014-15. The tangible net worth stood at Rs.25.49 crore in FY2015-16 as against Rs.22.35 crore in FY2014-15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Secured Overdraft	LT	2.34	SMERA BB-/Stable (Assigned)	-	-	-	-	-	-
Foreign Bills Purchase	ST	7.00*	SMERA A4+ (Assigned)	-	-	-	-	-	-
Fund based facilities (Proposed)	ST	0.10	SMERA A4+ (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
Secured Overdraft	NA	NA	NA	2.34	SMERA BB-/Stable (Assigned)
Foreign Bills Purchase	NA	NA	NA	7.00*	SMERA A4+ (Assigned)
Fund based facilities (Proposed)	NA	NA	NA	0.10	SMERA A4+ (Assigned)

**Bills Discounting and Gold Loan of Rs.5.60 crore and Rs. 1.40 crore respectively-sublimit within Foreign Bills Purchase*

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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