

Press Release

Arundhati Jewellers Private Limited

May 03, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.15	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	28.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	47.15	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) on the Rs 28.00 Cr. bank facilities of Arundhati Jewellers Private Limited (AJPL). The outlook is '**Stable**'. Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) on the Rs 19.15 Cr. bank facilities of Arundhati Jewellers Private Limited (AJPL). The outlook is '**Stable**'.

The rating upgrade is mainly driven by sustained revenue growth along with improvement in the financial risk profile. The improvement in operational performance is on account of the addition of new showrooms and higher gold realizations. The ratings also factors in the company's significant market presence in Odisha and the long experience of its promoters in the jewellery business. The ratings are constrained by high working capital intensity and intense competition in the retail jewellery segment.

About the Company

Arundhati Jewellers Private Limited was incorporated in 2005 by Odisha based Meher family. AJPL is engaged in jewellery retail business in Odisha. Currently the company operates 6 showrooms in Odisha.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of AJPL to arrive at the rating.

Key Rating Drivers

Strengths

Increased penetration and improving topline

AJPL was incorporated by Mr. Brahmananda Meher who possesses almost 2 decades of experience in jewellery retail business through the erstwhile proprietorship entity. Presently company operates six showrooms across Odisha. The company had incurred a capex of Rs 6

Cr in FY21 for setting up a showroom in Berhampur. The same was funded through a mix of debt and equity in 2:1 ratio. The said showroom is operational since September 2021. The company is focusing on semi urban markets where the presence of organized players is limited. The company is planning to expand its presence in Odisha over the medium term through new showrooms.

The company has registered sustained improvement in the scale of operation as the company has posted a revenue of Rs 352 Cr till December 2021 (Provisional) as against Rs 293 Cr. in FY21 and Rs 245 Cr in FY20. The improvement is driven by the addition of a new showroom in Berhampur along with expansion in Bolangir showroom. Acuité believes the scale of operation will continue to improve over the medium term backed by a favorable demand scenario.

Comfortable financial risk profile

The financial risk profile of the AJPL is marked by its moderate net worth, modest gearing ratio, and strong debt protection metrics. The net worth stood at Rs 25.60 Cr. as on 31st March 2021 as compared to Rs 16.43 Cr. in the previous year due to retention of profit. The gearing of the company stood modest, at 1.40 times in FY21 as against 1.48 times in the previous year. The company has a high dependency on external debt because of large inventory levels. TOL/TWN stood at 3.44 times in FY21 as against 3.94 times in FY20. AJPL's interest coverage ratio stood strong at 4.42 times as on 31st March, 2021, as against 3.53 times as on 31st March, 2020. This improvement is on account of a rise in absolute EBITDA due to healthy revenue growth. Net Cash accruals to Total Debt (NCA/TD) stood similar at 0.27 times in FY21 and FY20. Acuité believes the financial risk profile to remain comfortable over the medium term due to steady accruals and no major debt-led capex plans.

Moderate profitability margins

The company has moderate profitability margins as operating margin stood at 5.65 percent in FY21 as compared to 5.38 percent in FY20. Moreover, the RoCE of the company stood comfortable at 30.08 percent in FY21 as against 33.41 percent in the preceding year. The retail jewellery business has lower margin due to limited or low value additions. The company also faces commodity risk as fluctuation in gold prices is high. So in order to mitigate such risk, the company procures gold at regular intervals on the actual sale made by it. Acuité believes that profitability margin of the company will remain at similar levels over the medium term.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive as evident from its high gross current asset (GCA) days of 124 days in FY21 as 115 days in the previous year. The high GCA days are mainly due to high inventory days of 123 days in FY21. The company requires it to maintain large stocks of finished goods in its showrooms for display purposes. The debtor days of the company stood at negligible levels due to the retail mode of operations. Acuité believes the working capital requirement is likely to remain similar due to high inventory levels.

Fragmented and high competitive industry

Gold jewellery retailing is a highly-fragmented segment, with the presence of large organized and numerous unorganised players. The company faces tough competition from both regional and national players. Further, increase in the disposable income of both middle class and upper middle class and change in lifestyles of people lead to shifting of consumer base to branded jewellery. This will be a major risk factor for the long term growth of the company.

Rating Sensitivities

- Improvement in capital structure
- Sustenance in revenue growth with along substantial improvement in profit margin

Material covenants

None

Liquidity profile: Adequate

The company has an adequate liquidity profile as The company's net cash accrual stood comfortably at Rs 9.73 Cr. in FY21 as against no debt repayments. The working capital utilization during the 6 months ended March 2022 stood at around 93 percent.. Current ratio stood at 1.29 times in FY21 as against 1.21 times in FY20. The company has unencumbered cash & bank balance of Rs 1.08 crore as on March 31, 2021. However, the company witnessed rise in GCA days to 124 days in FY21 as against 115 days in FY20 due to inventory days. Acuité believes liquidity profile will remain adequate in medium term backed by improvement in net cash accrual.

Outlook: Stable

Acuité believes the outlook on AJPL will remain 'Stable' over the medium term backed by its long track record of operations along with comfortable financial risk profile. The outlook may be revised to 'Positive' if the company is able to improve its profit margin substantially while maintaining revenue growth. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile or financial risk profile due to rise in working capital requirement.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	293.45	245.78
PAT	Rs. Cr.	8.50	5.57
PAT Margin	(%)	2.90	2.27
Total Debt/Tangible Net Worth	Times	1.40	1.48
PBDIT/Interest	Times	4.42	3.53

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2021	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Assigned)
	Ad-hoc limits (Fund Based)	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB Stable Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	07-12-2021	7.20	07-11-2026	3.97	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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