



Press Release
ARUNDHATI JEWELLERS PRIVATE LIMITED
July 28, 2023
Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|----------------------------------|-------------------|
| Bank Loan Ratings | 47.15 | ACUITE BBB Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 47.15 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE BBB' (read as ACUITE Triple B)** on the Rs. 47.15 Cr. bank facilities of Arundhati Jewellers Private Limited (AJPL). The outlook remains **'Stable'**.

Rationale for reaffirmation

The rating reaffirmation is driven by sustained improvement in the scale of operations of the company over the years. AJPL achieved revenues of Rs.699.73 Cr in FY2023 (Provisional) as against Rs.432.60 Cr in FY2022 and Rs.293.45 Cr in FY2021, thereby, registering a CAGR of 54.57 per cent over the FY2021-23 period. The rating also draws comfort from the expansion in the number of showrooms in Odisha along with improvement in the working capital cycle in FY2023 marked by Gross Current Asset (GCA) days of 98 days in FY2023 (Provisional) as against 128 days in FY2022. The rating further factors in the experienced management and geographical penetration across various cities in the country.

However, these strengths are offset by the deterioration in the profitability margins, moderate financial risk profile and the presence in a highly competitive & fragmented industry.

About the Company

Incorporated in 2005, Arundhati Jewellers Private Limited (AJPL) is based in Odisha and is managed by the Meher family. The company is a retailer of gold jewellery and is also engaged in the trading of other items such as silver, precious stone ornaments and sarees. Currently, the company operates seven 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

Experienced management

Arundhati Jewellers Private Limited (AJPL) is promoted by Mr. Brahmananda Meher and his family. The promoter has more than two decades of experience in the jewellery retail business. The company has established a long track record of operations of around two decades and currently has seven showrooms in Odisha.

Acuite believes that the vintage of the promoters and the long standing operations of the

company will continue to support AJPL going forward.

Sustained revenue growth backed by geographical penetration

The scale of operations of the company has registered steady increase over the years. The revenues increased to Rs.699.73 Cr in FY2023 (Provisional) as against Rs.432.60 Cr in FY2022 and Rs.293.45 Cr in FY2021. Moreover, the company has achieved revenues of Rs.229.17 Cr in Q1 of FY2024. The upsurge in the revenue level is supported by the geographically diversifying spread of the company coupled with addition of new showrooms in Berhampur and Rourkela over the last two years which led to deeper penetration in semi urban and rural markets. The commercial operations of the showroom in Berhampur started in September, 2021 and that of the showroom in Rourkela commenced from May, 2022. Further, the company plans to open a new showroom in Cuttack whose commercial operations are expected to start in November, 2023.

AJPL witnessed improvement in the profitability on absolute terms, however, it declined in terms of margins. The operating margin of the company moderated to 4.66 per cent in FY2023 (Provisional) as compared to 5.40 per cent in FY2022. The PAT margin dipped to 2.25 per cent in FY2023 (Provisional) as against 2.66 per cent in FY2022. The deterioration in margins is on account of increase in the price of raw materials along with rise in depreciation and interest costs owing to capex undertaken. Going forward, improvement in the margins will be key monitorable.

Acuite believes that, going forward, the scale of operations will continue to improve over the medium term driven by addition of new showrooms and ramp up of operations in all the showrooms.

Moderate working capital management

The company's moderate working capital management is marked by Gross Current Assets (GCA) of 98 days in FY2023 (Provisional) as against 128 days in FY2022. The GCA days improved due to improvement in the inventory days. The inventory period stood moderate at 94 days in FY2023 (Provisional) as compared to 131 days in FY2022 due to keeping high stock of finished goods in the showrooms for display purposes.

Acuite believes that the working capital operations of AJPL will remain around the similar levels due to the nature of the business.

Weaknesses

Moderate financial risk profile

The company's moderate financial risk profile is marked by modest net worth, moderate gearing and comfortable debt protection metrics. The tangible networth of the company increased to Rs.52.49 Cr in FY2023 (Provisional) as against Rs.37.15 Cr in FY2022 due to accretion of reserves. Gearing stood moderate at 1.59 times in FY2023 (Provisional) as against 1.55 times in FY2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.34 times as on 31 st March, 2023 (Provisional) as against 3.79 times as on 31st March, 2022. However, the debt protection metrics of the company remained comfortable marked by Interest Coverage Ratio at 3.90 times and Debt Service Coverage Ratio at 2.55 times as on 31st March, 2023 (Provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times as on 31st March, 2023 (Provisional).

Acuite believes that going forward the financial risk profile of the company will continue to remain moderate backed by steady accruals.

Highly competitive industry coupled with high commodity risk

Gold being a commodity, price is influenced by various factors including demand and supply. The price fluctuation risk could have adverse impact on company's earnings. However, the risk of gold price fluctuation is mitigated to some extent by way of procuring gold on daily basis on the actual sale made by the company.

Moreover, gold jewellery retailing is a highly-fragmented segment, with the presence of large organised and numerous unorganised players. The company faces tough competition from regional and national players such as Lalchand Jewellers Private Limited, Khimji-KD Sons

Private Limited, Tanishq, Kalyan Jewellers among others. Further, increase in the disposable income of both middle class and upper middle class and change in lifestyles of people leads to shifting of consumer base to branded jewellery. This will be a major risk factor for long term growth of the company.

Rating Sensitivities

- Improvement in the capital structure
- Sustenance in revenue growth along with substantial improvement in profitability margins

Material covenants

None

Liquidity Position: Adequate

The adequate liquidity position of the company is marked by the improving accruals of Rs.18.94 Cr in FY2023 (Provisional) as against long term debt repayment obligations of only Rs.2.35 Cr over the same period. The current ratio stood at 1.19 times same for both FY2023 and FY2022. The cash and bank balances stood at Rs.11.75 Cr as on March 31, 2023 (Provisional) and the fund based limit remained utilised at 77 per cent over the six months ended May, 2023. Moreover, the working capital cycle of the group is improved and remained efficient marked by Gross Current Asset (GCA) of 98 days in FY2023 (Provisional) as compared to 128 days in FY2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the outlook on AJPL will remain 'Stable' over the medium term backed by steady increase in the operating income along with moderate financial risk profile, long track record of operations and moderate working capital management. The outlook may be revised to 'Positive' if the company is able to improve its profit margin and financial risk profile substantially while maintaining the 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Provisional) | FY 22 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 699.73 | 432.60 |
| PAT | Rs. Cr. | 15.72 | 11.49 |
| PAT Margin | (%) | 2.25 | 2.66 |
| Total Debt/Tangible Net Worth | Times | 1.59 | 1.55 |
| PBDIT/Interest | Times | 3.90 | 4.13 |

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 Entitie: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|--|
| 03 May 2022 | Term Loan | Long Term | 3.97 | ACUITE BBB Stable (Assigned) |
| | Cash Credit | Long Term | 2.00 | ACUITE BBB Stable (Assigned) |
| | Proposed Long Term Loan | Long Term | 0.18 | ACUITE BBB Stable (Assigned) |
| | Cash Credit | Long Term | 10.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Cash Credit | Long Term | 13.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Cash Credit | Long Term | 13.00 | ACUITE BBB Stable (Assigned) |
| 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 | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|-------------------------|------------------|----------------|----------------|------------------|-------------------|---|
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE BBB Stable Reaffirmed |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 13.00 | ACUITE BBB Stable Reaffirmed |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 2.00 | ACUITE BBB Stable Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 13.00 | ACUITE BBB Stable Reaffirmed |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 5.00 | ACUITE BBB Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 0.18 | ACUITE BBB Stable Reaffirmed |
| HDFC Bank Ltd | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 3.97 | ACUITE BBB Stable Reaffirmed |

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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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