

July 16, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	7.00	SMERA B+/Stable (Assigned)
Term Loans	2.09	SMERA B+/Stable (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (read as SMERA single B plus) to the abovementioned bank facilities of Sumangalee Jewellers (SJ). The outlook is '**Stable**'.

For arriving at the rating, SMERA has combined the business and financial risk profiles of SJ and AMR Sumangalee Jewellers (ASJ) on account of strong operational and financial linkages between the two entities, which are collectively referred to as the Sumangalee Group (SG).

The rating is constrained by the short operational track record of the group's newly established entity viz. AMR Sumangalee Jewellers. The rating is also constrained by the group's small scale of operations amidst intense competition in the jewellery industry. The rating factors in risks related to the group's working-capital intensive operations. Further, the rating reflects the group's exposure to commodity price volatility and supplier concentration risk. However, the rating is supported by the group's experienced management.

SG comprises Sumangalee Jewellers (established in 1996) and AMR Sumangalee Jewellers (established in July 2013, operational since September 2013). SG is engaged in retailing of gold jewellery and silver ornaments. The group's small-scale operations are reflected in revenue of Rs.38.03 crore (provisional) in FY2013-14 (refers to financial year, April 01 to March 31). SG faces intense competition from several players in the jewellery industry. The group's operations are working capital-intensive, as reflected in gross current assets of 242 days (average for the last three years). SG's profit margins are susceptible to volatility in prices of gold and silver. The group is exposed to supplier concentration risk arising from high dependence on a single supplier (Surana Corporation Limited) for procuring bulk of raw material. SG's stretched liquidity position is evidenced by high average utilisation (96 per cent) of working capital limit during September 2013 to April 2014.

SG benefits from its experienced management. The promoters of the group have around two decades of experience in the jewellery industry.

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Outlook: Stable

SMERA believes the outlook on SG's rated facilities will remain stable over the medium term. The company's ability to expand its scale of operations without compromising on profitability and liquidity position will be a key rating sensitivity. The outlook may be revised to 'Negative' in case of sharp decline in the company's profit margins, or in case of deterioration in the company's capital structure. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in profit margins, liquidity position and financial risk profile.

About the group

SG is a Salem-based group engaged in retailing of gold jewellery and silver ornaments. SG comprises Sumangalee Jewellers (established in 1996) and AMR Sumnagalee Jewellers (established in July 2013, operational since September 2013). The overall operations of the group are currently managed by Mr. P. Arumugam, Mr. P. Manivel, Mr. P. Ravikumar, Mr. A. Manojkumar and Mr. M. Ilanjeyan.

For FY2012-13, SG reported net profit of Rs.0.61 crore on total income of Rs.17.49 crore, as compared with net profit of Rs.0.67 crore on total income of Rs.17.49 crore for FY2011-12. Further, the group reported net profit of Rs.2.28 crore (provisional) on total income of Rs.38.03 crore (provisional) in FY2013-14. SG's net worth stood at Rs.5.99 crore as on March 31, 2013, as compared with Rs.4.61 crore a year earlier.

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