

November 03, 2015

| Facilities         | Amount<br>(Rs. Crore) | Rating                              |
|--------------------|-----------------------|-------------------------------------|
| <b>Cash Credit</b> | <b>7.00</b>           | <b>SMERA B+/Stable (Reaffirmed)</b> |
| <b>Proposed</b>    | <b>2.09</b>           | <b>SMERA B+/Stable (Reaffirmed)</b> |

SMERA has reaffirmed rating of '**SMERA B+**' (**read as SMERA B plus**) on the above mentioned bank facilities of Sumangalee Jewellers (SJ). The outlook is '**Stable**'.

The rating continues to draw comfort from the group's long track record of operations and extensive experience of the promoters in the gems and jewellery industry. The rating is also supported by the strong revenue growth registered by the firm. However, the rating is constrained by the susceptibility of the firm's profit margins to volatility in raw material prices and working capital - intensive operations.

For the rating process, SMERA has consolidated the business and financial risk profiles of Sumangalee Jewellers (SJ) and AMR Sumangalee Jewellerrrs (ASJ) together referred to as the Sumangalee Group (SG). The consolidation is in view of the common ownership apart from strong operational and financial linkages between the two entities.

#### **Update:**

The SG group recorded revenues of Rs.67 crore during FY2014-15, implying healthy year-on-year growth of 50 per cent (latest four year CAGR) in line with SMERA's expectation. SMERA expects the firm to sustain its growth momentum over the medium term. The operating profitability of the firm during FY2014-15 stood at as 4.8 per cent, marginally lower than previous year's owing to increased procurement costs. Nevertheless, the group's liquidity remains adequate for the rating category marked by adequate cash accruals and absence of term debt obligations.

#### **Outlook: Stable**

SMERA believes that SG would continue to benefit over the medium term from the promoters long track record of operations. The outlook may be revised to 'Positive' in case of increase in the firm's scale of operations and operating margins leading to improvement in the business risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's cash accruals or working capital cycle leading to weakening of liquidity.

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## Rating Sensitivity Factors

- Sustained improvement in profitability
- Improvement in working capital management

## About the Firm

The Tamil Nadu-based SG Group is engaged in the retailing of gold jewellery and silver ornaments. The group comprises Sumangalee Jewellers (established in 1996) and AMR Sumnagalee Jewellers (established in July 2013 and operational since September 2013). The day-to-day operations of the group are managed by Mr. P. Arumugam, Mr. P. Manivel, Mr. P. Ravikumar and others.

For FY 2014-15, SG reported net profit of Rs.0.38 crore on total income of Rs.66.02 crore as compared with net profit of Rs.0.29 crore on total income of Rs.38.60 crore for FY 2013-14.

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