

Rating Rationale

Om Commodity Trading Co.

10 Apr 2019

Brickwork Ratings assigns ratings for the proposed bank loan facilities of ₹ 40 Crores of Om Commodity Trading Co.

Particulars

Issue	Rated Amount (₹ Crs)	Tenure	Rating Assigned [^]
Fund Based			
EPC	40.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook :Stable
Bill Discounting (Sub Limit of EPC)	(40.00)	Short Term	BWR A4 (Pronounced as BWR Single A Four)
Total	40.00#	Rs. Forty Crores Only#	

Proposed loan limits yet to be sanctioned by lender .

[^]Please refer to BWR website www.brickworkratings.com/ for definition of the ratings .

Ratings: Assigned Long Term rating of BWR BB and short term rating of BWR A4 with a Stable Outlook to Om Commodity Trading Co ('OM' or 'the Firm').

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY18 publicly available information and information/ clarifications provided by the Firm.

OM sells bullion and jewellery to wholesalers and other jewellery manufacturers in India and the UAE. The ratings factor in the experience of the promoters in the bullion trading business in UP state, its long relationship with established clients, and limited vulnerability to the risks of fluctuation in bullion prices, given its non-speculative procurement mechanism and low inventory days.

The firm proposes to expand its gold jewellery trade on a larger scale to the UAE markets for which it has sought EPC and Bill Discount limits from lenders. Currently the firm imports 2% of its raw material (gold bullion) from UAE and exports jewellery. Apart from the above proposed limits, the firm is availing Rs.144.95Crs as Overdraft /Bill Discounting limits and export credit from various lenders. These facilities

are, however, not being rated by BWR on the client's request.

The ratings are constrained by the fragmented structure and competitive nature of the bullion trading business, leading to thin operating margins. The firm has low net worth relative to its scale of operations, notwithstanding an improvement witnessed over the past years. OM remains highly vulnerable to the regulatory and market risks associated with the bullion and wholesale jewellery trading business.

Going forward, the demand for gold in the country and the firm's ability to improve its scale of operations and profit margins in a competitive market would remain the key rating sensitivities. As a part of capex the firm is planning to commence the export of gold jewellery to overseas markets, primarily UAE for which the company has sought for the proposed limits.

Description of Key Rating

Drivers

Credit Strengths:

Experience of the promoters in the bullion-trading business – The promoters have been involved in the bullion-trading business for around two decades through OM. In addition, other entities in the group are involved in gold refinery and trading in gold & silver jewellery.

Strong market position and long relationship with established clients - OM's strong market position in northern India and its long relationships with established clients ensure repeat orders and reduce counterparty risks to some extent.

Limited inventory and non-speculative procurement mechanism insulate OM from price-fluctuation risks to a large extent - For bullion-trading business, OM normally procures gold in lot sizes depending on daily demand/order received, to avoid the risks of inventory and forex losses. Moreover, the share of the jewellery-manufacturing business, which warrants higher inventory holding, remains low in the firm's overall turnover. As a result, the firm's stocking requirement remains low relative to its top-line. Further, the firm purchases and sells bullion mainly at spot prices, instead of speculative arrangements. Hence, the firm's vulnerability to the risks of price fluctuations remains limited.

Credit Risks:

Fragmented industry structure and competitive nature of the commodity-trading business, leading to thin operating margin - Intense competition in the fragmented industry and the trading nature of operations continued to keep OM's operating margin low, though the same improved to 0.05% in FY18 from 0.02% in the previous year.

Exposure to regulatory and market risks associated with the bullion-trading business -The firm's business remains highly vulnerable to both market and regulatory risks associated with gold. The price of gold in the domestic market is directly influenced by a number of factors like the price of gold in the

international markets, the foreign exchange rates as well as customs duty in India on gold import. The demand of gold depends on the price

trends and economic scenario to a large extent, whereas supply is mainly impacted by government policies on imports.

Low net worth, notwithstanding an improvement witnessed over the years - The requirement of capital employment in the bullion-trading business remains low relative to the scale of operation, and the accretion to reserves also remains modest due to low profitability. Hence, the firm's net worth remained at a low level, notwithstanding a gradual improvement over the years.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Om Commodity Trading Co.'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

Om Commodity Trading Co. is a proprietorship concern of Shri Ajay Kumar Garg, established in 2003. The firm is involved in the trading of gold & silver and has recently entered into the exports of gold jewellery. The head office of the firm is at Agra and the firm has established branch network in Delhi, Bareilly, Mumbai & Kolkata.

The firm has sister concerns in the name of OMGL Refinery LLP and Shree Bhagwan Ajay Kumar Sarraf involved in the field of Gold Refinery and Trading of Gold & silver Jewellery respectively.

Firm's Financial Performance.

Key Financials					
Result Type	Limits	31/Mar/2017		31/Mar/2018	
		Audited		Audited	
Total Operating Income	Rs. Crs	2124.31		2727.48	
OPBDIT	Rs. Crs	0.52		1.49	
PAT	Rs. Crs	0.46		0.62	
Tangible Net Worth	Rs. Crs	7.15		8.33	
TOL/TNW	Times	1.96		6.03	
Current Ratio	Times	1.55		1.17	

Rating History for the last three years (including withdrawn/suspended ratings)

Facilities	Rating Assigned in 2018			Rating History		
	Amount to be Rated (In Crs)	Tenure	Rating Assigned	2017	2016	2015
Fund Based						
EPC	40.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook :Stable	NA	NA	NA
Bill Discounting (Sub Limit of EPC)	(40.00)	Short Term	BWR A4 (Pronounced as BWR Single A Four)			
Total	40.00#	Rs. Forty Crores Only#				

Proposed loan limits yet to be sanctioned by lender .

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

Any other information – NIL

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entity](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

Analysts	Media		
<p><u>Mr. Ashwini Mital</u> Director - Ratings analyst@brickworkratings.com</p>	<p>media@brickworkratings.com</p> <tr> <th data-bbox="797 344 1466 380">Relationship Contact</th> <td data-bbox="797 380 1466 489"> <p>bd@brickworkratings.com</p> </td> </tr>	Relationship Contact	<p>bd@brickworkratings.com</p>
Relationship Contact	<p>bd@brickworkratings.com</p>		

Phone: 1-860-425-2742

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument: BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.