Brickwork Ratings for Informed Investment Decisions

Rating Report

Brickwork Ratings reaffirms rating of 'BWR A4+' for the short term bank facilities of A.M Exports.

Facility	Amount (₹ Cr)	Tenure	Rating
PCFC	6.00	Short Term	BWR A4+ (BWR A Four Plus)
FBP / FCBD / PSDL	9.95		
Standby Limit Under Gold Card	1.75		
Total	17.70	INR Seventeen Crores and Seventy Lakhs Only	

Brickwork Ratings (BWR) has reaffirmed the **Rating**[1] of 'BWR A4+' (Pronounced BWR A Four Plus) for the short term Bank credit facilities of ₹ 17.70 crore of A.M Exports ("AME" or "the Firm").

The rating, inter alia, factors experience of the partners' in the jewellery business, and geographical diversification of operations resulting in better labour accessibility. The rating is however constrained by the Firm's small scale of operations, weak financial profile marked by small net worth, high gearing and low profitability margins, un-hedged exposure to price volatility risk partially counteracted by price negotiation and marginal gross cash accruals.

BWR has essentially relied upon the audited financial results of A.M Exports up to FY13, provisional P&L results for December 2013 and clarifications provided by the Firm.

Background

A.M Exports is a partnership firm was established by Mr. Mihir R Kothari and Ms. Suhasini R Kothari in the year 1993. The Firm is engaged in trading and manufacturing of small diamonds. It was reconstituted during 2013 when Ms. Suhasini R Kothari retired and Mr. Akshay Kothari has been admitted in her place. The Firm's main unit is located in Ahmedabad where most of the cutting and polishing of stones are done, along with one another factory unit in Udupi. Additionally the Firm also outsources a portion of its work to the contractors in Surat, havangar,

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Udupi and Amreli. It imports rough diamonds from Belgium and Dubai and exports polished diamonds to various countries like U.S.A, Belgium, Dubai, Thailand and Hong Kong.

Bank Facilities

The Firm has availed working capital facilities from Bank of Baroda. The overall limit amounts to ₹ 17.70 Crores. The borrowings are secured by a charge on inventory & book-debts of the Firm, by a charge on specific fixed assets of the Firm and guarantees by its partners including the retired partner.

Financial Performance

Net revenues of the Firm grew by 34.72% in FY13. It witnessed increase in operating costs to sales ratio from 81.04% during FY12 to 83.81% during FY13 primarily on account of increase in material cost. However labor cost to sale of the Firm declined from 23.46% during FY12 to 14.36% during FY13 due to introduction of automation. Despite the growth in revenues, the net margin fell by 51.72% during FY13 mainly on account of depreciation. The Firm has recorded a forex gain during FY13 as compared to a loss suffered during FY12. It's debt protection metrics were marginal with Total debt to equity of 1.60 times and ISCR of 0.47 times during FY 13.
The balance sheet for FY13 expanded by 22.09% during FY13 and has also witnessed infusion of capital during the same period. However the size of the net worth continued to be small because of withdrawals by the partners in the past. Liquidity profile of the Firm remained moderate with a current ratio of 1.40 times during FY 13 and a working capital cycle of 94 days.

Rating Outlook

Going forward, significant improvement in the net worth backed by the partners' funding, the Firm's ability to maintain favorable capital structure and effectively manage its working capital along with the substantial growth in profit margins and cash accruals would be key rating sensitivities for the Firm.

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