Rating Rationale

Brickwork Ratings assigns "BWR A4+" rating to the ₹ 17.70 Crore (INR Seventeen Crore and Seventy Lakhs only) short term Bank Loan Facilities of A.M. Exports

BLR Issue Rating: BWR A4+

Brickwork Ratings (BWR) has assigned the rating of BWR A4+ (pronounced BWR A four plus) to the Rs. 17.70 crore (INR Seventeen crore and seventy lakhs only) short term bank loan facilities of A.M. Exports. Credit facilities with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such credit facilities carry very high credit risk and are susceptible to default.

The rating, inter alia, factors experience of the partners' in the jewellery business, geographical diversification of operations resulting in better labor accessibility and favorable regulatory environment.

However, the rating is 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.

Background

A M Exports is a partnership firm managed by Mr. Mihir R Kothari and Ms. Suhasini R Kothari. The firm was established in the year 1993 and is engaged in trading and manufacturing of small diamonds. 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, Bhavangar, Udupi and Amreli. The firm imports rough diamonds from Belgium and Dubai and exports polished diamonds to various countries like U.S.A, Belgium, Dubai, Thailand and Hong Kong.

Industry Profile: The industry is considered to be unorganized, export oriented and volatile in terms of diamond pricing with the nature its operations being labor, working capital and raw material intensive. Diamond industry plays a key role in the Indian economy as it is seen as one of the leading foreign exchange earning sectors for the country. It contributed around 16.67% to India's total merchandise exports in FY 11. This sector's growth was predominantly driven by Cut & Polished Diamonds which registered an increase of 54.91% and accounted for 65.49% of the total gems and jewelry exports in FY 11. Though India plays a dominant role in the Gems and Jeweler industry in terms of processing and consumption, its role in the mining of gold and diamond is minimal. India imports gold and rough diamonds along with other precious metals and exports cut and polished diamonds. However as per the provisional data released by RBI,

the export of cut and polished diamond for the period April-July 2012 has slowed down at 96.43 lakh carats (Rs. 26438.54 crs) from 197.69 lakh carats (Rs. 37488.62 crs) during the same period in the previous year.
(Source: GJEPC report and RBI's report on Gems and Jewelry exports.)

Financial Analysis
Net revenues of the firm expanded by 18.43% in FY12, in line with the industry growth. Of the total operating costs, material costs represented 91.35% and increased by 33.23% in FY12. Despite the growth in operating margin, PAT fell by 3.73% in FY12. This was attributable to the high finance costs for the period which represented 52.42% of operating profit and grew by 50.15% in FY12, albeit a reduction in the borrowings folio. Additionally the firm recorded a forex loss of 0.39 crore in FY12. The firm's debt protection metrics were marginal with net cash accruals to total Debt of 0.04 times and ISCR of 3.15 times in FY 12 which is further expected to fall over the medium term. DSCR in FY 12 further improved to 2.12 times from 1.60 times in FY 11 owing to the improved operating margins during the period. The modest scale of operation weakened the firm's business risk profile backed by intense competition and weak profit margins.

The balance sheet for FY12 expanded by 12.55% predominantly owing to the accumulated profit reserves. In FY12, 30.90% of the profits were retained. However the size of the net worth continued to be small because of the regular withdrawals by the partners. The partners have not infused any additional capital for the past three years; however on an average around 44.44% of the revenues was retained within the firm as internal accruals. Reduction in borrowings enhanced the capital structure of the firm which was witnessed in the improvement of gearing level from 2.18 times in Fy 11 to 1.99 times in FY12.

Credit Risk Assessment
The credit risk assessment is broadly based on the fairly long experience of the promoters, spread of operations of polishing to minimize the risks associated with skilled labor, the financial profile characteristics, exposure to currency and forex risks, and the intensity of working capital requirements.

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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A. M Exports

Annexure I: Financial Ratios

Key Ratios	FY 2009 (A)	FY 2010 (A)	FY 2011 (A)	FY 2012 (A)
D/E Ratio (x)	0.65	2.07	2.18	1.99
Interest Coverage (x)	2.93	0.19	1.57	3.15
DSCR (x)	1.12	NM	1.60	2.12
Net Profit Margin	0.22%	1.11%	1.25%	1.02%
ROCE	15.42%	0.38%	2.66%	7.71%
Net Cash Accruals / Total Debt (x)	0.02	0.02	0.05	0.04
Current Ratio (x)	2.88	3.54	4.74	2.94
Average creditor days	NA	86	59	52
Average Inventory days	NA	194	113	81
Average debtor days	NA	95	136	132
Cash Conversion Cycle (days)	NA	204	190	162
Gross Cash Accruals	0.05	0.23	0.54	0.45

*Calculation has been done based on BWR ratio definition

**** Abridged financial numbers (Balance sheet and P&L statement) have not been made available to the public at special request from the Client. This would be made available to the Bankers and other concerned regulatory authorities on request.**