

Rating Rationale

Brickwork Ratings assigns 'BWR A4+' Rating for Bank Credit Facilities aggregating ₹ 15 Crore of A.S. Enterprise

Bank Loan Rating: BWR A4+

Outlook :

Brickwork Ratings (BWR) has assigned the Rating¹ of '**BWR A4+**' (Pronounced BWR A Four Plus) for the short-term Bank credit facilities of ₹ 15 Crores of **A.S. Enterprise** ("ASE" or "the Firm").

The rating reflects promoters' experience and expertise in diamond polishing business, long standing contacts with clients resulting in repeat orders, dealing in small carat size diamonds having stable demand, low gearing & healthy coverage indicators and promoters ability to infuse equity capital.

The rating is however constrained by firm's small scale of operations restricting economies of scale, low profit margins due to less value adding and working capital intensive nature of business, concentrated expertise limiting business diversification and industry characterized by severe competition from players in the unorganized as well as organized sectors.

Operations

Incorporated in Jan 1986 as Partnership firm, A.S. Enterprise is involved in cutting & polishing of rough diamonds. The Firm generally imports rough diamonds from Belgium; Israel, U S polishes them, and exports them to different countries with US contributing 25% of total exports. The Firm has its manufacturing facilities at Dahisar, Mumbai. A.S. Enterprise is promoted by two partners, Mr. Amit Shah and Mr. Sandip Kothari. Both partners have almost 3 decades of experience and expertise of Diamond industry.

The Firm generally works with diamonds in the range of 0.01 to 0.10 carat and has expertise in polishing small diamonds. Partners personally visit Belgium and other countries to source rough diamonds as per specific requirements of clients. The Firm employs around 200 people at its workshop in Mumbai and has state of the art machinery required for cutting and polishing rough diamonds. It imports diamonds on OGL basis. 50% of polished diamonds are exported whereas remaining is sold in domestic market. However payment for such transactions is received in dollars. It works at 100% capacity utilization and 50% of its sales are order backed. Diamond business generally works on trust and the Firm does not

¹ Please refer to BWR website www.brickworkratings.com for definition of the Rating.

indulge in marketing activities to get orders. It receives orders on the basis of long standing contacts and expertise in industry.

Financial performance

Revenues increased by 28% to Rs. 84 Cr. In FY12, compared to FY11 on account of significant increase in value of diamonds, partly offset by decline in volumes. The Firm generally receives major orders due to partners' strong expertise and long standing contacts in market. Operating margin is low at 3.5%, which is common across industry, on account of low value adding nature of business. Consequently, ASE recorded stable net margin of 2.5%. Going further revenues are expected to increase marginally on account of subdued demand in US and European countries. Operating margins is expected to be volatile due to fluctuations in foreign exchange rate, whereas net margin is expected to remain at current level.

The Firm generally maintains an average 60 days of inventory (60 days for rough diamonds and 45 days for polished diamonds). As firm deals in small carat size diamonds, which are high in demand, inventory cycle is smooth. The Firm avails average 60-90 days of credit period from suppliers and provides between 60-90 days of credit to their clients. It also avails pre shipment credit for export orders providing necessary liquidity. Working capital requirement of the firm is modest with cash conversion cycle of 60 days.

Debt levels mainly consist of working capital loans required for funding liquidity gap. Debt equity ratio has improved in FY12 on account of lower debt levels due to lower utilization of bank facilities and better net worth. Networth of the firm has been on upward trend on account of better profitability which is again ploughed back into the business. Comfortable coverage ratios along with low gearing reflects the ability of the company to pay its dues in timely manner and provides further room for additional debt for expansion. NCA/Total debt has shown improving trend over recent past driven by better operating performance and declining debt levels.

Outlook

Going forward, the firm's ability to maintain favourable capital structure and effectively manage its working capital along with the substantial growth in revenues, profit margins and cash accruals would be key rating sensitivities for the firm.

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Annexure I- Key Financials- A.S. Enterprise

Ratios	2010	2011	2012
	Audited	Audited	Audited
Operating Income	57.06	66.60	85.23
EBITDA	2.00	2.32	2.90
PAT	1.56	1.62	2.09
Long term borrowings	--	1.21	0.46
Short term borrowings	9.33	7.72	6.98
Total Debt	9.33	8.92	7.43
Paid Up Equity Capital	10.14	10.90	11.47
Reserves & Surplus	1.56	1.62	2.09
Tangible Net worth (Rs. Cr)	11.69	12.52	13.56
Debt to Equity (x)	0.80	0.71	0.55
Interest Coverage (x)	1.40	1.50	1.23
EBITDA Margin (%)	3.54%	3.52%	3.45%
PAT Margin (%)	2.76%	2.45%	2.49%
Net Cash Accruals / Total Debt (x)	0.17	0.19	0.30
Current Ratio (x)	1.48	1.53	1.59

*Calculations has been based on BWR ratio definition