

Rating Rationale

Brickwork Ratings assigns 'BWR BB' for the Bank Loan Facilities aggregating ₹ 35 Cr of Aanandam Ornaments Pvt. Ltd.

Brickwork Ratings has assigned the following **Rating¹** for the Bank Loan Facilities of Aanandam Ornaments Pvt. Ltd (*"AOPL" or "the Company"*).

Facility/ Limits	Bank Name	Existing Limits (₹ Cr)	Proposed Limits (₹ Cr)	Tenure	Rating
Cash Credit	Corporation Bank	8.00*	35.00***	Long Term	BWR BB (BWR Double B) (Outlook: Stable)
Cash Credit	Corporation Bank	12.00**			
Total Rated Limits		20.00	35.00	INR Thirty Five Crores only	

*Sanctioned Limits for Aanandam Jewellers

**Sanctioned Limits for Diamond Jewels Corporation

***Proposed Limits for Aanandam Ornaments Pvt. Ltd (yet to be sanctioned by bank)

BWR has principally relied upon the consolidated audited financial results (up to FY13) of the two partnership firms Anandam Jewellers and Diamond Jewels Corporation which merged with AOPL, contents of the 'Agreement for take-over of firms' dated 1st July 2013, projections of AOPL up to FY15 and information/clarifications provided by the company management.

The rating factors, inter alia, the experience of the promoters of over two decades in the jewellery industry, consistent growth in revenues, established supplier and customer relationships and the financial & operational strength derived from recent merger of other promoter Companies into AOPL.

The assigned rating, is, however, constrained on account of intense competition in the jewellery industry, growing - but still modest scale of operations, thin profit margins, , vulnerability of the revenues and margins to fluctuations in the gold prices, and the recent regulations which have reduced availability of gold for domestic business.

Background

AOPL was incorporated in Sep 2012, & vide the agreement dated 1st July 2013, took over two partnership firms Anandam Jewellers & Diamond Jewels Corporation. Anandam Jewellers was a partnership firm of Mr. Manoj Kumar & Vikas Verma, engaged in jewellery business since 2010. Diamond Jewels Corporation was another partnership firm with Mr. Manoj Kumar &

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

Smt. Suman Soni, & in similar line since 2011. AOPL has taken over the business of both the firms with effect from 1st June 2013, & the capital of the two is also transferred to the Company.

AOPL is engaged in manufacturing and trading of plain gold jewellery articles, and those studded with diamond and other precious & semi-precious stones, mainly on wholesale basis. The Company deals in 18 & 22 carot gold and diamond jewellery. The Company is a family driven business promoted by Mr. Manoj Soni & Mr. Vikas Verma, and is based out of Delhi. As on date, both the promoters have equal shareholding in the Company. The main showroom of the Company is in Karol Bagh, New Delhi. Gold jewellery segment contributes 90% to their total sales and residual is from diamond jewellery. The wholesale business accounts for 96% of total revenue contribution.

The company does not have its own manufacturing facilities and gets Jewellery items made on job work basis from various craftsmen based on the customer orders received. The Company runs on the business model of back to back order booking.

Management Profile

AOPL is promoted by Mr. Manoj Soni and his relative, Mr. Vikas Verma; both the promoters have long experience in the Gold Jewellery industry.

Financial Performance

The Financial performance of the Company is to be seen post-merger, which is effective from 1st July 2013. Hence, the company does not have any material business for the year ended 31st March 2013, though the Company came into existence in September 2012. However, as the entity being rated is nothing but the result of consolidation of business of the two firms, BWR has examined their combined results up to FY13.

Net combined sales have increased many fold to ₹ 227.01 Crores in FY13 from ₹ 32.94 Cr in FY12 mainly due to favourable business climate for the Gold Jewellery trade in that period. For the consolidated turnover of FY13, revenue contribution from Diamond Jewels Corporation was ₹ 150.53 Cr, followed by Aanandam Jewellers (₹ 64.55 Cr), and AOPL (₹ 11.93 Cr). Major portion of the combined revenues (~60%) was generated from manufacturing activities while the balance was generated from low margins trading business. However, due to increase in raw material costs, the operating margins have declined from 1.10% in FY12 to 0.90% in FY13. Profit after tax slightly increased to ₹ 0.67 Cr in FY13 from ₹ 0.11 Cr in FY 12, mainly due to improved turnover during the year. However, net profit margins were weak at 0.29% in FY13.

Combined outstanding debt as at March 31, 2013, was ₹ 15.13 Cr, comprising long term borrowings of ₹ 0.06 Cr and short term borrowings of ₹ 14.95 Cr in FY13. Company's tangible net worth was low at ₹ 6.10 Cr in FY13. With increasing turnover and to fund working capital

operations, the debt levels are expected to increase further. Total debt/ Tangible net worth stood at 2.46 times in FY13 vs. 2.05 times in FY12. AOPL's debt coverage ratios, ROCE and current ratio were moderate.

Rating Outlook

The outlook of AOPL is expected to be stable over the current year. Government regulations to restrict imports or purchase of gold, volatile gold prices and increasing level of competition in the Jewellery industry could have an adverse impact on the business of the company. The Company is also planning retail jewellery trade, which is quite competitive, and will involve higher working capital requirements. Going forward, the company's ability to sustain its scale of operations post-merger, improve its profit margins and manage its liquidity and working capital efficiently would be key rating sensitivities.

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