

Rating Rationale

Brickwork Ratings assigns 'BWR BB' for the Bank Loan Facilities aggregating ₹ 85 Cr of Ashtavinaayak Jeweller Pvt. Ltd.

Brickwork Ratings has assigned the following **Rating¹** for the Bank Loan Facilities of Ashtavinaayak Jeweller Pvt. Ltd (*"AJPL" or "the Company"*).

Facility/ Limits	Bank Name	Amount (₹ Cr)	Tenure	Rating
Cash Credit Book debts as sub-limit	PNB	45.00 (10.00)	Long Term	BWR BB (BWR Double B) (Outlook: Stable)
Cash Credit	SBI	25.00		
Total Existing limits		70.00		
Proposed Limits (₹ Cr)	-	15.00		
Total Rated Limits		85.00	INR Eighty Five Crores only	

BWR has principally relied upon the audited results of AJPL up to FY13, projections up to FY15 and information/clarifications provided by the company management.

The rating factors, inter alia, the extensive experience of the promoters in the jewellery industry, consistent growth in revenues, established supplier and customer relationships and comfortable gearing levels. The rating, is, however, constrained by the fragmented nature of and intense competition in the jewellery industry, vulnerability of the revenues and margins to fluctuations in the gold prices, recent regulations which have reduced availability of gold for domestic business and high working capital intensity of the business.

Background

Incorporated in Feb 2007, AJPL is engaged in sale of 100% hallmark gold jewellery, diamond studded gold jewellery and silver jewellery and articles. The company is part of the Diamond Hut group, Delhi, which includes Diamond Hut India Pvt Ltd (rated BWR BB(Stable)), Gold Planet and Ashtavinaayak Jeweller Pvt Ltd. Originally named 'Diamount Jewels Pvt Ltd', the company was taken over by Mr. Suresh Verma in November 2007, and was renamed 'Ashtavinaayak Jewellers Pvt Ltd' in June 2012.

AJPL purchases bullion from importers on cash basis while diamonds are purchased from traders based in Mumbai, Surat and Delhi. The company does not have its own manufacturing facilities and provides designs along with gold and diamonds to the local artisans. The company has showrooms at Delhi (Karol Bagh and Pitam Pura) and Gold Souk, Gurgaon. AJPL has also expanded its wholesale business to Rajasthan, Gujarat, Punjab and Jammu & Kashmir.

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

The company's revenues are classified into Retail and Wholesale. The wholesale segment business accounted for 63% of total sales followed by Retail (37%) in FY13. Sale of Gold Jewellery contributed 47%, while that of diamond Jewellery was 53%.

Management Profile

Mr. Suresh Verma, Director, has around 25 years of experience in the gold and diamond jewellery industry. The other directors of AJPL are Mrs. Amita Verma, wife of Mr Suresh Verma, and Ms Ekta Sharma, daughter of Mr Suresh Verma. Mr Suresh Verma and his family hold 80% of the company's share capital as of March 31, 2013. All the directors are also directors of Diamond Hut India Pvt Ltd.

Financial Performance

AJPL's net sales have increased to ₹ 395.44 Crores in FY13 from ₹ 361.43 Crores in FY12. However, due to increase in raw material costs, the operating margins have declined from 5.04% in FY12 to 4.53% in FY13. Profit after tax increased to ₹ 4.04 Crores in FY13 from ₹3.60 Crores in FY 12, mainly due to improved turnover and reduced finance charges during the year. Outstanding debt as at March 31, 2013, was Rs 71.43 Cr, comprising long term borrowings of ₹ 0.13 Cr and short term borrowings of ₹ 71.30 Crores in FY13. Total debt/ Tangible net worth improved to 1.86 times in FY13 from 2.16 times in FY 12. AJPL's debt coverage ratios were moderate.

Rating Outlook

The outlook of AJPL is expected to be stable over the current year. AJPL derives benefits from the Diamond Hut groups's established presence and experience in the jewellery business, as the entities in the Diamond Hut group have common promoters and significant managerial, operational and financial linkages. Diamond Hut India Pvt Ltd has also extended corporate guarantee for the bank facilities availed by AJPL. Government regulations to restrict imports or purchase of gold could have an adverse impact on the business of the company. Going forward, the company's ability to increase its scale of operations, improve its profit margins and manage its liquidity and working capital efficiently would be key rating sensitivities.

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Key Financials of AJPL are as per the table below:

Particulars	FY11	FY12	FY13
Results Type	Audited	Audited	Audited
Total Operating Income (₹ Cr)	322.42	361.48	395.44
EBITDA (₹ Cr)	11.36	18.24	17.92
EBIT (₹ Cr)	11.22	18.03	17.76
Profit Before Tax (₹ Cr)	4.33	5.47	5.95
Adjusted Profit After Tax (₹ Cr)	2.9	3.6	4.04
Long-Term Borrowings (₹ Cr)	0.64	0.47	0.13
Short-Term Borrowings (₹ Cr)	77.02	73.42	71.3
Total Debt/ Tangible Net worth (times)	2.59	2.16	1.86
Interest Service Coverage Ratio (times)	1.62	1.43	1.51
Debt Service Coverage Ratio (times)	1.34	1.29	1.34
Tangible Net Worth (₹ Cr)	29.98	34.22	38.41
Net Profit Margin (%)	0.90%	0.99%	1.02%
Operating Profit Margin (%)	3.52%	5.04%	4.53%
Net Cash Accruals/Total Debt	0.04	0.05	0.06
ROCE (%)	13.43%	16.71%	16.30%
Current Ratio (times)	1.36	1.41	1.48