March 06, 2020

Agra Products Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital	28.00	28.00	[ICRA]A4; reaffirmed
Unallocated	7.00	7.00	[ICRA]BB(Stable); reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating reaffirmation factors in the subdued revenue growth in Agra Products Private Limited's (APPL) operating income (OI) and stable profitability margins in FY2019. However, this was accompanied by a decline in gearing and improvement in TOL/TNW levels in FY2019.

The rating continues to factor in the extensive experience of the promoters in the silver jewellery business and the company's established presence in the export market. Further, the ratings take into account the better contribution margins supported by higher sales of jewellery.

The rating, however, continues to be constrained by the intensely competitive and fragmented nature of the jewellery industry, which has numerous unorganised players. The company continues to face geographical-concentration risk as more than 25% of its sales came from a single market (the UK) in FY2019. The rating remains constrained by the company's exposure to forex fluctuations in the absence of hedging, which impacts its profitability. Also, APPL's operating scale remains rangebound due to intense competition in the business. Moreover, its working capital intensity remains high due to the large inventory, which results in increased bank limit utilisations.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that APPL will continue to benefit from the extensive experience of its promoters and its established track record in the silver jewellery manufacturing business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in silver jewellery - Being the third-generation entrepreneurs, the promoters have extensive experience in the silver jewellery export business. At present, the day-to-day management of the company is looked after by Mr. Rohit Gupta, the promoter-director of the company.

Established relationship with clients - The promoters have been selective in expanding the client base by remaining focused on credit risk management. Some of the key clients include Glitter International AB, Cookson Precious Metals, Prouds Jewellers Pyt Limited. Many of these are large retailers in the jewellery space.

Credit challenges

High inventory position results in substantial working capital intensity - The company maintains a high inventory position with sizeable stock keeping units (SKU) across the product categories. This has resulted in high net working capital intensity of 65% in FY2019 compared with 61% in FY2018. Thus, APPL is dependent on working capital limits, as evident from the average utilisation of above 95%. ICRA notes that a major portion of the stock remains order backed, mitigating the impact of moderate silver price movements.

Exposure to forex fluctuation - Being an exporter, the company mainly sells in US dollars. As a result, it remains exposed to foreign exchange risk as it partly hedges foreign transactions.

Stiff competition from various players - The company faces intense competition due to the fragmented nature of the industry because of the moderate capital investment required. Further, APPL faces stiff competition from countries like China, Italy and Thailand, which manufacture silver jewellery in the bulk.

Liquidity position: Stretched

APPL's liquidity is **stretched** due to high utilisation of working capital limit.

Rating sensitivities

Positive triggers: ICRA could upgrade the rating if the company demonstrates a sustained improvement in its revenues and operating profit margins, leading to an improvement in net cash accruals. In terms of specific credit metrics, the company's interest cover of more than 2.4 times on a sustained basis will be a positive trigger.

Negative triggers: ICRA could downgrade the rating if there is a major decline in operating profit margin and deterioration in working capital parameters. In terms of specific credit metrics, the company's RoCE of less than 9% on a sustained basis will be negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the standalone financial profile of the company

About the company

APPL, which was incorporated in May 2000, was formerly known as ACPL Products Private Limited. It is owned by Mr. Mahesh Gupta, Mr. Rohit Gupta and Mrs. Parul Gupta and is located in Noida (Uttar Pradesh) in the special economic zone (SEZ). The company manufactures basic jewellery comprising chains and earrings as well as fashion jewellery including bracelets, pendants and necklaces. The retail portion was separated from APPL into a limited liability partnership named ACPL Products and Jewellery LLP in November 2014. The company exports silver jewellery to several countries, with its major markets being the UK, Sweden and other European countries.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	54.00	53.26
PAT (Rs. crore)	1.91	2.17
OPBDITA/ OI (%)	7.46%	8.08%
RoCE (%)	10.12%	10.34%
Total Outside Liabilities/Tangible Net Worth (times)	1.72x	1.49x
Total Debt/ OPBDITA (times)	7.25x	6.59x
Interest Coverage (times)	1.93x	2.09x
DSCR (times)	2.93x	3.04x

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 6, 2020	Date & Rating in FY2019 March 28, 2019	Date & Rating in FY2019 June 5, 2018	Date & Rating in FY2018 May 15, 2017
1	PCFC/CC	Short Term	28.0	28.0	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
2	Unallocated	Long Term	7.0	7.0	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB(Stable)**
3	Cash Credit	Long Term	-	-	**-**	**-**	**-**	**[ICRA]BB (Stable)**

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PCFC/CC	-	-	-	28.00	[ICRA]A4
NA	Unallocated	-	-	-	7.00	[ICRA]BB (Stable)

Source: APPL

Annexure-2: List of entities considered for consolidation: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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