March 13, 2020

Orra Fine Jewellery Private Limited: Ratings placed on Watch with Negative Implications; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term, Fund-based/Non-fund based Facilities	120.00	130.00	[ICRA]BBB(CE)@/[ICRA]A3+ (CE)@; placed on rating watch with negative implications
Long-term/Short-term, Fund-based / Non-fund based sublimit	(105.00)	(109.00)	[ICRA]BBB(CE)@/[ICRA]A3+ (CE)@; placed on rating watch with negative implications
Total	**120.00**	**130.00**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	[ICRA]BB+/[ICRA]A4+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

ICRA's rating action for the bank facilities of Orra Fine Jewellery Private Limited (OFJPL) has taken into account the movement in the rating of Rosy Blue (India) Private Limited (RBIPL or the Guarantor; rated [ICRA]BBB+@/[ICRA]A2@; placed on rating watch with negative implications). The company's rating is based on the unconditional and irrevocable corporate guarantee extended by RBIPL for the captioned bank facilities of OFJPL. The watch on this rating reflects ICRA's rating action on the guarantor, RBIPL.

For the [ICRA]BBB(CE)@/[ICRA]A3+(CE)@ (placed on rating watch with negative implications) rating assigned to OFJPL's bank facilities

Adequacy of credit enhancement

To assign the rating, ICRA has assessed the attributes of the guarantee issued by RBIPL in favour of OFJPL's bank facilities. While the guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenor of the rated facilities, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]BBB(CE)@/[ICRA]A3+(CE)@ (placed on rating watch with negative implications) to the said bank facilities against the Unsupported Rating of [ICRA]BB+/[ICRA]A4+ (and in relation to the guarantor's rating of [ICRA]BBB+@/[ICRA]A2@; placed on rating watch with negative implications). In case the rating of the guarantor or the Unsupported Rating of OFJPL were to undergo a change, the same would have a bearing on the rating of the aforesaid bank facilities as well. The rating of these bank facilities may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or a change in the reputation sensitivity of the guarantor to a default by the rated entity, or in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

» *During the currency of the bank's credit facilities, the borrower shall not without the prior approval of the bank in writing:*
  - *Effect any change in their capital structure*
  - *Shall not pledge the shares held by the promoters, group beyond 10% of holdings, for raising any loan or for securitizing any loans or advances availed/to be availed by them from any bank/financial institution/lender*
  - *Formulate any scheme of amalgamation/reconstitution*
  - *Undertake any new project/scheme without obtaining the bank's prior consent unless the expenditure on such expansion etc., is covered by borrower's net cash accruals after providing for dividends, investments, etc., or from long term funds received for financing such new projects or expansion*

» *The borrower should not make any material change in their management set up without bank's permission. No material change in shareholding pattern of the company which has an effect of a possible change in the management control of the company shall be made without prior approval of the bank.*

» *Reduction/change in promoter shareholding/change in promoter directorship resulting in change in management control shall be undertaken with prior permission of the bank. Pledge of shares by promoters which may potentially change management control (if pledge is enforced) shall be undertaken with prior approval of the bank. For the above purpose, transfer of shares includes formation of a Trust which becomes the beneficiary of promoters' shareholding.*

Key rating drivers

Corporate Guarantee provided by RBIPL – Unconditional and irrevocable corporate guarantee extended by RBIPL (rated [ICRA]BBB+@/[ICRA]A2@; placed on rating watch with negative implications), the parent company, for due payment of obligations under the bank facilities of OFJPL.

Rating rationale of RBIPL

Liquidity position: Adequate

RBIPL reported cash flows from operations (CFO) of ~Rs. 53 crore in FY2019 (on a consolidated basis), against which it had an limited dividend payout of ~Rs. 3 crore and a capex funding of ~Rs. 16 crore, thus, resulting in positive free cash flows of ~Rs. 42 crore. ICRA expects RBIPL's cash flow from operations to moderate in FY2020 on account of decline in operating profit margin and high working capital intensity. However, the company has a cushion in the form of undrawn working capital limits (average utilisation level stood at ~61% of the average sanctioned limits of ~Rs. 1,185 crore over the last 12 months from January 2019 to December 2019). Apart from the free cash and bank balance of ~Rs. 12 crore as on September 30, 2019 (on a standalone basis) and adequate cushion available from unutilised limits, RBIPL's liquidity is supported by the market value of its equity investments to the tune of around Rs. 126 crore as on September 30, 2019. Considering that the company's debt profile, like that of most cut-and-polished diamond (CPD) and jewellery entities, is short-term in nature for meeting its working capital requirements, RBIPL does not have any scheduled debt repayments, apart from the Rs. 25.8 crore optionally convertible redeemable preference shares (that are repayable/convertible into equity shares at the option of RBIPL on or before December 2026) and minor short-term debt of ~Rs. 14 crore as on March 31, 2019, on a consolidated basis. Further, as informed by the company, RBIPL does not envisage any major capex requirements over the near to medium term, supporting its liquidity position.

Rating sensitivities

The rating assigned to the bank facilities would remain sensitive to any movement in the rating or outlook of the guarantor, RBPIL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Company: Rosy Blue (India) Private Limited The rating for the bank facilities is based on OFJPL's standalone business and financial profile, which is enhanced on the basis of the business and financial linkages with RBIPL and an unconditional and irrevocable corporate guarantee by RBIPL.
Consolidation/Standalone	Standalone

About Orra Fine Jewellery Private Limited

Incorporated in 1991 by the Bhansali and the Mehta families, promoters of one of India's largest CPD manufacturing companies, Rosy Blue (India) Private Limited (rated [ICRA]BBB+@/[ICRA]A2@; placed on rating watch with negative implications), OFJPL manufactures and retails branded gold and diamond-studded jewellery in India. OFJPL was incorporated for establishing Rosy Blue's retail presence in the country. The promoters introduced a professional management team for the daily functioning of the company, while providing strong financial backing for its growth. While jewellery design is undertaken by its in-house team of professional designers, the manufacturing is completely outsourced as OFJPL does not own any manufacturing facilities. At present, it retails gold and diamond studded jewellery under the Orra brand through its 39 outlets across 23 Indian cities.

About Rosy Blue (India) Private Limited

Mr. Bhanuchandra Bhansali and Mr. Arunkumar Mehta incorporated the partnership firm, B. Arunkumar, in 1960 to cut and polish rough diamonds in Mumbai. The firm, which began as a contract manufacturer, soon started procuring roughs from the open market and manufactured CPDs using its own name. As the business expanded across geographies, the management adopted a brand name to encompass all its business operations. Consequently, the company (Everest Gems) was renamed as Rosy Blue (India) Private Limited (RBIPL). It is beneficially owned by the members of the Bhansali and Mehta promoter families, along with certain minority shareholders. The Rosy Blue Group, which includes its subsidiaries, is primarily involved in the jewellery manufacturing business. RBIPL's key subsidiaries/step-down subsidiaries include Orra Fine Jewellery Private Limited, Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., USA. While Orra Fine Jewellery Private Limited manufactures and retails gold and diamond studded jewellery in the domestic market, Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., USA, manufacture and carry out wholesale business for exporting/selling diamond-studded jewellery.

Key financial indicators (audited)

	OFJPL		RBIPL (Consolidated)	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	369.9	490.4	3,959.0	4,018.7
PAT (Rs. crore)	-4.1	-3.5	40.2	56.4
OPBDIT/OI (%)	2.2%	2.5%	3.6%	4.2%
RoCE (%)	1.9%	4.2%	5.9%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.3	1.2	1.1
Total Debt/OPBDIT (times)	13.2	9.9	7.3	5.7
Interest Coverage (times)	1.0	1.0	2.1	2.2
DSCR	0.9	1.0	1.8	1.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2019	FY2018	FY2017
					13-Mar-2020	7-Feb-2020	01-Mar-2019	25-Jan-2018	07-Dec-2016
1	Fund-based / Non-fund based facilities	Long-term/ Short-term	130.00	-	[ICRA]BBB (CE) @/[ICRA]A3+ (CE)@; placed on rating watch with negative implications	[ICRA]BBB (CE)(Stable)/[ICRA]A3+ (CE)	[ICRA]A-(SO)(Stable)/ [ICRA]A2+(SO)	[ICRA]A-(SO)(Stable)/ [ICRA]A2+(SO)	[ICRA]A-(SO)(Stable)/ [ICRA]A2+(SO)
1	Sub-limit, Fund-based/Non-fund based	Long-term/ Short-term	109.00^	-	[ICRA]BBB (CE) @/[ICRA]A3+ (CE)@; placed on rating watch with negative implications	[ICRA]BBB (CE)(Stable)/[ICRA]A3+ (CE)	-	-	-

Amount in Rs. crore; ^Rs. 109 crore of sublimit is backed by Bank Guarantees issued as part of the main limits of Rs. 130 crore. As such, the total utilisation should not exceed Rs. 130 crore at any point of usage

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	Long-term/Short-term, Fund-based / Non-fund based facilities	NA	NA	NA	130.00	[ICRA]BBB (CE)@ /[ICRA]A3+ (CE)@;
NA	Long-term/Short-term, Fund-based / Non-fund based sublimit	NA	NA	NA	109.00^	[ICRA]BBB (CE)@ /[ICRA]A3+ (CE)@;

^Rs. 109 crore of sublimit is backed by Bank Guarantees issued as part of the main limits of Rs. 130 crore. As such, the total utilisation should not exceed Rs. 130 crore at any point of usage; Source: Orra Fine Jewellery Private Limited

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About ICRA Limited:

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