September 01, 2020

Orra Fine Jewellery Private Limited: Outlook revised to Negative; rating removed from watch with negative implications

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	130.00	130.00	[ICRA]BBB(CE) (Negative)/[ICRA]A3+(CE); removed from watch with negative implications
Long-term/Short-term, Fund-based / Non-fund based sublimit	(109.00)	(109.00)	[ICRA]BBB(CE) (Negative)/[ICRA]A3+(CE); removed from watch with negative implications
Total	**130.00**	**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

The rating of Orra Fine Jewellery Private Limited (OFJPL) takes into account the unconditional and irrevocable corporate guarantee extended by the parent company, Rosy Blue (India) Private Limited (RBIPL or the Guarantor; rated [ICRA]BBB+ (Negative)/[ICRA]A2), for the said bank facilities of OFJPL. The 'Negative' outlook and removal of ratings from watch with negative implications for the said bank lines of OFJPL follows the movement in rating of the guarantor, RBIPL (Negative outlook assigned to long-term rating of [ICRA]BBB+ and ratings of [ICRA]BBB+@/[ICRA]A2@ removed from watch with negative implications).

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) (Negative)/[ICRA]A3+(CE) 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+ (Negative)/[ICRA]A2). 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:*
   i. *Effect any change in their capital structure*
   ii. *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*
   iii. *Formulate any scheme of amalgamation/reconstitution*
   iv. *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+ (Negative)/[ICRA]A2), the parent company, for due payment of obligations under the bank facilities of OFJPL.

Rating rationale of RBIPL

Liquidity position: Adequate

RBIPL's liquidity position remains adequate supported by cash and bank balance of ~Rs. 4 crore and market value of liquid investments of ~Rs. 72 crore as on July 9, 2020, on a consolidated basis. The company also has cushion available in the form of undrawn working capital limits (average utilisation stood at ~52% of the sanctioned limits of Rs. 1,180 crore over the last 12 months ended June 2020 – standalone level). While operating profitability is expected to be impacted in FY2021, cash flow from operations are expected to be supported by release of working capital on the back of decline in its scale and prudent management of working capital. Considering that the company's debt profile, like most 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), on a consolidated basis. Further, RBIPL does not envisage any major capex requirements over the near-to-medium-term.

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+ (Negative)/[ICRA]A2), 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.

On a provisional basis, OFJPL reported an operating income (OI) of ~Rs. 479 crore and profit after tax (PAT) of ~Rs. 4 crore in FY2020, compared to an OI of ~Rs. 490 crore and a net loss of ~Rs. 4 crore in FY2019.

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.

On a provisional basis, RBIPL reported an operating income (OI) of ~Rs. 2,208 crore and net loss of ~Rs. 7 crore in FY2020 on a standalone basis, compared to an OI of ~Rs. 2,648 crore and profit after tax (PAT) of ~Rs. 20 crore in FY2019.

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%
PAT/OT (%)	-1.1%	-0.7%	1.0%	1.4%
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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					1-Sep-2020	13-Mar-2020	7-Feb-2020	01-Mar-2019	25-Jan-2018
1	Fund-based / Non-fund based facilities	Long-term/ Short-term	130.00	-	[ICRA]BBB (CE) (Negative)/[ICRA]A3+ (CE)	[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)
1	Sub-limit, Fund-based/Non-fund based	Long-term/ Short-term	109.00^	-	[ICRA]BBB (CE) (Negative)/[ICRA]A3+ (CE)	[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) (Negative) /[ICRA]A3+ (CE)
NA	Long-term/Short-term, Fund-based / Non-fund based sublimit	NA	NA	NA	109.00^	[ICRA]BBB (CE) (Negative) /[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:

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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