

AJ Refinery Private Limited

August 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	40.00 (₹ Forty Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of AJ Refinery Private Limited (AJRPL) are constrained on account of thin profitability of the group [on a combined basis for 2 entities under the group, i.e., AJRPL and AJ Gold & Silver Refinery (AJGSR)], susceptibility of profitability margins to volatility in gold prices, foreign exchange fluctuation risk and presence in highly competitive and fragmented industry. These rating constraints are however partially offset by experienced promoters, growing scale of operations and moderate financial risk profile with satisfactory debt coverage indicators. Furthermore, the promoters are in process of transferring all the operations of AJGSR to AJRPL in the current year, post which former would cease to exist.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent improvement in PBILDT margins above 0.50% while sustaining its scale its scale of operations.
- Ability to sustain effective management of operating cycle and operational cash flows.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs. 5,000 crore and with sharp decline in profit margins
- Deterioration in overall gearing ratio of more than 2.0x

Detailed description of the key rating drivers

Key rating weaknesses

Thin profitability margins and exposure to volatility in gold prices: Despite the large scale of operations, group's PBILDT margin remained very thin at 0.20% during FY22 (Provisional, refers to the period from April 1 to March 31) (FY21: 0.18%) due to its commoditised nature of the business and inherently low profitability in trading operations. The thin margin increases the risk of volatility of gold prices on the group's overall cash flows. The group's procurement policy leading to a low inventory holding period of about 1 to 2 days has rendered some stability to its margins in the past, although short-term volatility would remain high that could impact the PBILDT significantly.

Foreign exchange fluctuation risk: The group imports 100% of their raw material requirement. The products are priced as per import parity. With majority of raw material being imported, the group is exposed to forex rate fluctuations. To mitigate the risk, the group hedges its entire exposure through MCX. Due to the currency fluctuations, the group reported gain on foreign currency fluctuations of Rs. 53.56 crore during FY22 (PY: Rs. 33.67 crore).

Highly competitive and fragmented nature of industry coupled with regulatory risks: The domestic jewellery industry is fragmented and highly competitive with the presence of large number of organised and unorganised players. Being a wholesale player in the market, group faces stiff competition from artisans as well as who are directly engaged by the retailers and thereby putting pressure on its profitability. Further, gold prices have exhibited sharp volatility depending upon the demand & supply scenario and volatility in the foreign currency exchange rates. Supply of gold is also regulated by Government of India (GOI) and Reserve Bank of India (RBI) to control the country's current account deficit.

Key rating strengths

Extensive experience of promoters: AJRPL was incorporated in the year 2018 and the operations of AJ Gold & Silver Refinery (established in 2010) are in process to be transferred into the company. The group has been promoted by Mr. Mothilal Jain, Mr. Prabhat Chaudhary, and Mr. Goutam Rajendra Mehta, who have an experience of over a decade in the precious metals refining industry. Moreover, Mr. Prabhat Chaudhary has been engaged in refining business for around 40 years and Mr. Mothilal Jain also operates jewellery showrooms in Bangalore. Furthermore, there has been a track record of need-based funding by promoters which has resulted in lower dependence on external debt.

Growing scale of operations: The group has recorded a turnover of Rs. 6,291.72 crore in FY22 as against Rs. 3,137.73 crore in FY2021. The increase in revenue is driven by increase in quantity sold backed by new orders viz 17,206.83 KGs of gold and silver (PY: 6,861.60 KGs of gold and silver) as well as increase in the commodity prices. In the current year, the group has already registered sales of Rs. 1,606.67 crore in Q1FY23 which is considered as a leaner demand period as against Rs. 1,303.63 crore in the corresponding quarter in the previous financial year.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate capital structure with satisfactory debt coverage indicators: The group does not have any term debt, however there are borrowings in the form of loans from related parties and their relatives or inter-corporate borrowings. The capital structure of the group has improved from the last year on account of relatively lower working capital borrowings and the same is marked by overall gearing of 1.01 times (FY21: 2.44 times) as on March 31, 2022. However, the net worth base remained low with a net worth of Rs. 15.91 crore (PY: Rs. 11.42 crore). Further, the debt coverage indicators stood satisfactory marked by interest coverage at 3.40x (FY21:1.91x) and TD/GCA of 1.40x (FY21: 15.17x) in FY22.

Liquidity: Adequate

Liquidity is marked by adequate accruals against no repayment obligations and cash & bank balance to the tune of Rs. 2.56 crore. The group has a gearing of 1.01 times as of March 31, 2022. AJRPL is yet to avail working capital limits for its working capital requirements. However, AJ Gold & Silver Refinery is availing an OD limit of Rs. 12 crore which has been fully utilized for the last 6 months. Operating cycle for the group stood nil as the half of the customers makes payment in advance while the other half pay at the time of delivery, inventory holding period stood low (1 day as on March 31, 2022) and the group makes payment to its suppliers on advance basis.

Analytical approach: Combined

While arriving at the ratings of AJRPL, CARE has considered a combined view of AJ Refinery Private Limited (AJRPL) and AJ Gold and Silver Refinery (AJGSR), owing to common promoters, operational synergies, and presence in similar line of business.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Wholesale Trading](#)

About the company

AJ Refinery Private Limited was incorporated in the year 2018. In August 2021, operations of AJ Gold and Silver Refinery, a partnership firm started to transfer into AJ Refinery Private Limited. The company is promoted by Mr. Prabhat Choudhary, Mr. Mothilal Jain and Mr. Gautam Mehta and is engaged in the manufacturing and processing of raw gold and silver into bullion, bars, and coins, and sells the chemical derived refining gold and silver to precious metal coating and electroplating industries. Refinery unit is located at Hamirpur, Himachal Pradesh with an annual refining capacity of 30 MT of Gold Dore and 270 MT of Silver Dore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY2023
Total operating income	3,137.73	3,922.33	1,606.67
PBILDT	5.74	11.47	-
PAT	1.59	8.14	-
Overall gearing (times)	2.44	0.49	-
Interest coverage (times)	1.91	19.74	-

A: Audited; P: Provisional; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Proposed fund-based limits		-	-	-	40.00	CARE BB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Proposed fund-based limits	LT	40.00	CARE BB-; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Proposed fund-based limits	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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