

Darpan Jewels (Gujarat) LLP

January 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	30.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	30.00 (Rs. Thirty Crore Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Darpan Jewels (Gujarat) LLP (DJG) continue to derive strength from its experienced and resourceful promoters, moderate scale of operations, capital structure and debt coverage indicators along with adequate liquidity during FY20 (FY; refers to the period from April 01 to March 31).

The ratings, however, continue to remain constrained by DJG's moderate profitability, it's constitution as limited liability partnership firm, presence in highly fragmented and competitive nature of gems and jewellery (G&J) industry and susceptibility of profit margins to fluctuation in prices of gold.

Rating Sensitivities

Positive Factors

- Increase in its scale of operations by more than 30% while reporting PAT margin of more than 3% on a sustained basis
- Improvement in solvency position as marked by overall gearing ratio below 1.25 times and TDGCA of lower than 7 years with efficient management of its working capital

Negative Factors

- Change in stance of Mr. Dilipkumar V. Lakhi w.r.t. his personal guarantee towards the bank facilities availed by DJG
- Decline in scale of operations and GCA by 30% or more on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful partners

DJG is promoted by Mr. Chirag Lakhi and Mr. Viral Shah. Mr. Chirag Lakhi belongs to Lakhi family and is the son of Mr. Dilipkumar V. Lakhi. The Lakhi group comprises of two firms, Vishindas Holaram (VH), constituted in 1944, and Dilipkumar V. Lakhi (DVL), constituted in 1970. The Lakhi family has an established presence in the Cut Polished Diamond (CPD) industry of over seven decades. The Lakhi family is amongst the leading Indian CPD exporters with a presence in over 20 countries. Besides exports, it supplies diamonds to many leading Indian CPD players that are DTC sight holders themselves, which indicates its good market standing. The firm benefits from the experience of its partners as well as their established position in the market. Furthermore, Mr. Dilipkumar V Lakhi has extended support as a personal guarantor for the bank facilities availed by DJG. Mr. Viral Shah, designated partner, who has a decade long experience, was also associated with few other firms belonging to same line of industry.

Moderate scale of operations

The total operating income (TOI) of DJG remained stable at Rs.141.08 crore during FY20 (Rs.143.24 crore during FY19). Although sales volume of DJG declined by ~16% y-o-y in FY20, average per gram sales realisation in FY20 increased by ~16% over FY19 on account of increase in gold prices. The TOI of FY20 includes jewellery making charges of Rs.13.29 crore (Rs.13.58 crore in FY19). The top 5 customers of DJG contributed around ~21% of TOI during FY20 (~21% of TOI in FY19) which signifies diversified customer portfolio of DJG. Till December 15, 2020, DJG reported TOI of ~Rs.62 crore.

Moderate capital structure and debt coverage indicators

The capital structure of DJG continued to remain moderate marked by an overall gearing ratio at 2.36 times as on March 31, 2020 (P.Y. end: 1.53 times). Deterioration is mainly on account of decrease in tangible net worth (on account of withdrawal of capital of Rs.2.91 crore by partners) coupled with increase in total debt level as on balance sheet date. Debt coverage indicators also deteriorated as marked by Total Debt to Gross Cash Accruals (TDGCA) of 28.36 years during FY20 (P.Y.: 15.57) on account of increase in total debt levels coupled with lower cash accruals during FY20. Interest coverage ratio remained moderate at 2.60 times during FY20 (3.43 times during FY19).

Key Rating Weaknesses

Moderate profitability

The PBILDT margin continued to remain moderate at 2.01% in FY20 (2.37% in FY19). Marginal decline is on account of increase in jewellery making charges and other cost during FY20. Finance cost increase to Rs.1.09 crore in FY20 as against Rs.0.99 crore in FY19 on account of avilment of adhoc bank facilities during FY20. Consequently, PAT margin also reduced to 0.79% in FY20 (1.05% in FY19).

Constitution as a limited liability partnership (LLP) firm

Being a LLP firm, DJG is susceptible to risk associated with withdrawal of capital by the partners. Partners have been withdrawing capital from the firm y-o-y during last three years (in excess of profit earned by the firm) and during FY20 they withdrew Rs.2.91 crore (Rs.2.13 crore during FY19). Withdrawal of capital has led to deterioration in the firm's capital structure and compelled the firm to avail adhoc limits from lenders to meet working capital requirements.

Presence in a highly fragmented and competitive nature of G&J industry

The G&J jewellery industry is highly fragmented with presence of numerous independent small-scale enterprises in unorganized sector and few large players in organized sector. High competition in the operating spectrum and moderate size of the firm limits the scope for improvement in margins and compels the firm to constantly update its stock so as to maintain its market share. However, this is partially mitigated by over a decade of partners' experience in G & J industry and cordial relationship with its clients/ jewellery houses.

Susceptibility of its profitability to volatile gold prices

The major raw material for DJG is gold, while it also buys other precious stones for studded jewellery. Gold prices have exhibited sharp volatility depending upon the international demand-supply scenario and geopolitical situations. Furthermore, import of gold has been continuously regulated by Government of India (GOI). However, DJG follows the inventory replenishment method to mitigate the price fluctuation risk to some extent.

Liquidity: Adequate

Liquidity position of DJG remained adequate marked by comfortable operating cycle of 30 days (P.Y.: 33 days), healthy cash flow from operations of Rs.3.88 crore and nil long term debt obligations. Working capital utilization remained high at ~86% for trailing 12 month period ended November 2020. The firm also availed adhoc limit of Rs.10.00 crore in December 2019 for the tenure of six months for stocking of jewellery for participation in exhibition. Unencumbered cash and bank balance, however, remained at Rs.0.14 crore as on March 31, 2020.

CARE takes cognizance of impact of COVID pandemic on business operations of firm. The operations of DJG were shut from March 21 2020 to May 23, 2020 on account of nationwide lockdown due to outbreak of COVID-19 pandemic. The firm has not availed moratorium benefit for its bank facilities as announced by RBI.

Analytical approach: Standalone along with support from resourceful promoter group including entities with strong credit profile like M/s. Dilipkumar V Lakhi (DVL)

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[CARE's Rating Methodology - Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Firm

Ahmedabad- based (Gujarat) DJG was established in the year 2015 by Mr. Viral Shah, Mrs. Donika Shah and Mr. Chirag Dilip Kumar Lakhi. Mrs. Donika Shah ceased to be a partner of DJG and Ms. Meena Shah was introduced as a partner effective from November 01, 2018. DJG is engaged in the business of wholesale and retail, manufacturing as well as trading of gold bullions and gold jewellery like necklaces, bracelets, pendants, bangles, earrings, etc. and operates from its only showroom located at C.G. Road, Ahmedabad. DJG purchases gold in the form of bullions/bars and outsources the manufacturing on job work basis, post which it sells jewellery to different wholesalers and retailers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	143.24	141.08
PBILDT	3.40	2.84
PAT	1.50	1.12
Overall gearing (times)	1.53	2.36
Interest coverage (times)	3.43	2.60

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	30.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	30.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (03-Jan-20)	1)CARE BBB-; Stable / CARE A3 (27-Nov-18)	1)CARE BBB-; Stable / CARE A3 (10-Nov-17)

Annexure 3: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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