

Jodhani Brothers

March 18, 2021

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	12.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable; (Double B Plus; Outlook: Stable)
Total facilities	12.00 (Rupees Twelve Crores Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Jodhani Brothers (JB) considers the strong capital structure of the firm, along with stable operating and profitability performance. The revision also factors in the improvement in its interest coverage ratio and adequate liquidity position, which continues to remain comfortable above over the past three years. Furthermore, the rating also factors in resourcefulness and experience of the promoters with established track record in Gems & Jewellery (G&J) business, presence across key G&J markets and reputed clientele. The rating, however, continues to be tempered by volatility in raw material prices, foreign exchange fluctuation risk and presence in a highly competitive G&J industry. While the working capital cycle remains comfortable, the same is largely on account of higher creditors period, supporting the higher inventory levels.

Rating Sensitivities

Positive Rating Sensitivities

- Improvement in profitability margins, with PBILDT margins above 5.00% on sustained basis
- Consistent growth in scale of operations

Negative Rating Sensitivities

- Consistent deterioration in operating profitability below 3%
- Deterioration in the capital structure as marked by overall gearing ratio above unity, on a sustained basis
- Any deterioration in the liquidity profile of the company owing to any significant increase in receivables or inventory levels and sustained level of operating cycle above 100 day

Detailed description of the key rating drivers

Key Rating Strengths

Established and experienced promoters in diamond processing business

JB is a partnership firm started by four brothers Mr. Jaysukh Jodhani, Mr. Vinod Jodhani, Mr. Haresh Jodhani and Mr. Himmat Jodhani who have more than 30 years' experience in G&J industry. In FY18, Mr. Himmat's shareholding was replaced by his cousin brothers Mr. Dhuru & Mr. Bharat. JB is into manufacturing and trading of Cut and Polished Diamonds (CPD) of various size, shapes and grades.

Comfortable capital structure

JB does not have any major long-term debt from banks or any other financial institutions. Overall gearing improved to 0.07x during FY20 from 0.15x during FY19, owing to reduction in working capital facility utilisation and improvement in Networth. Total debt to GCA also improved to 0.42x during FY20 from 0.66x during FY19.

Improvement in interest coverage ratio

JB's interest coverage ratio improved to 30.14x during FY20 from 19.49x during FY19, due to reduction in interest cost. Liquidity is adequate marked by moderate usage of working capital facilities; as unutilized limits can provide a cushion in times of unforeseen exigencies. Average utilisation of fund based working capital facility was around ~21% for last 12 months ended on January-21.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Stable operating performance

JB faced difficulty in generating sales during Q4 FY20 as well as Q1 FY21 due to the issues related to Covid-19 pandemic but the firm managed to increase sales from Q2 FY21 onwards, and recovery continued post Q2 FY21 as well. In addition to this, JB also managed to improved profitability margins during FY20 as well as FY21.

Diversified geographical presence & customer base

JB continues to derive significant share of revenue from export sales. During FY20, the export sales accounted for approximately 53.20% of total sales. JB derives its major share of revenue from countries like Hong Kong, USA, Israel, Belgium and UAE. During FY20, total share of revenue from top 5 export destination was 48.22%.

Well established clientele; albeit concentration of customers

JB has a longstanding relationship and a well-established client base across geographies. Client concentration risk is also moderate as top 10 customers contributed around 21.68% of total sales during FY20 (PY – 24.55%).

Key Rating Weaknesses**Susceptible to volatility in the prices of the diamonds**

JB procures rough diamonds largely from non-sight holding sources and other suppliers from the open market which are further processed into cut and polished diamonds. The major customers of JB comprise wholesalers who in turn sell the polished diamonds to jewellery manufacturers. In order to meet the requirement of CPD of end customers the firm inherently maintains higher levels of inventory. Thus, exposing operational performance of the firm to volatility of diamond prices.

Foreign exchange fluctuation risk

Due to high inventory holding periods, the firm runs an inherent risk of volatility in raw material prices. Although the exports sales partially hedge the exchange rate fluctuation risk to an extent, the profits continue to be susceptible to the same as it does not hedge its balance foreign currency exposure. Volatility in foreign exchange rates may severely affect the profitability margins if continued to remain un-hedged.

Industry Prospects:

Gems and Jewellery is one of the leading sectors in India's exports with 11% share and is ranked high in terms of labour intensity employing ~ 4.6 million people. Gross exports from India declined by 10.2% YoY to USD 35.5 billion in FY20, on the back of US-China trade war, protests in Hong Kong, implementation of VAT in Middle East, high import duties on polished diamonds, gold and other commodities etc. Gems & Jewellery industry in India is primarily export-oriented and in the recent past, it has been affected by weakening demand from main export nations, stress on working capital operations and funding constraints faced by small scale players. Going forward, steady demand of diamond and gold jewellery from USA is expected to support the demand for manufacturers in India. In the following year of FY21, due to the Covid-related restrictions, Q1-FY21 turned to be a major disappointment for trade as well as domestic demand. Hence, online mode of selling, being the only alternative, gained pace. H2-FY21 onwards, as the restrictions eased, exports picked momentum, and for cumulative 10 months FY21, exports have reached 2/3rd of previous year's levels

Liquidity: Adequate

JB does not have any major long-term external debt from banks or financial institutions. Liquidity is adequate marked by current ratio of 1.19x as on March 31, 2020 as well as moderate usage of working capital facilities; as unutilized limits can provide a cushion in times of unforeseen exigencies. The average of maximum monthly utilisation of fund-based facilities remained moderate at ~21.10% during last 12 months ended January, 2021.

Analytical approach: Standalone**Applicable Criteria**

[CARE's credit rating process](#)

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

[Criteria on assigning Outlook and Credit Watch to Credit Rating](#)

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

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

[Rating Methodology - Manufacturing companies](#)

About the Company

Established in 1998, M/s. Jodhani Brothers (JB), a closely held partnership firm is engaged in processing and exporting of cut and polished diamonds of size of 0.3 to 3 carats. JB has its processing plant located at Surat (Gujarat). Business is primarily export oriented to countries namely USA, Hong Kong, and Israel.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Income from Operations	584.51	481.33
PBILDT	17.21	15.35
PAT	9.81	8.82
Overall Gearing (times)	0.15	0.07
Interest Coverage (times)	19.49	30.14

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

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 – EPC/PSC	-	-	-	3.60	CARE BBB-; Stable
Fund-based – LT – Post Shipment Credit	-	-	-	8.40	CARE BBB-; Stable

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-EPC/PSC	LT	3.60	CARE BBB-; Stable	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (02-Apr-20)	-	1)CARE BBB-; Stable (22-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)	-
2.	Fund-based - LT-Post Shipment credit	LT	8.40	CARE BBB-; Stable	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (02-Apr-20)	-	1)CARE BBB-; Stable (22-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-EPC/PSC	Simple
2.	Fund-based - LT-Post Shipment credit	Simple

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

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About CARE Ratings:

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