

Jodhani Brothers

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	54.00	CARE BB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation factors in the moderate debt coverage indicators of Jodhani Brothers (JB) following the deterioration in its scale of operations and stretched working capital cycle in FY24 and CARE Ratings Limited's (CARE Ratings) expectations of muted performance in the medium term due to industry-wide demand headwinds and declining diamond prices. JB's operating income declined by 40% y-o-y to Rs. 379.88 crore in FY24 as against Rs. 632.72 crore in FY23 on the back of more than 20% reduction in sales volume and ~18% correction in average realisations. While its profit before interest, lease, depreciation and tax (PBILDT) margin sustained at 3.16% (PY: 3.51%) in FY24, its profit after tax (PAT) margin declined by 88bps YoY to 0.92% in FY24 (PY: 1.80%) considering lower absorption of fixed costs. Additionally, JD's working capital intensity remains high as reflected by elongation in operating capital cycle to 122 days in FY24 against 63 days in FY23 mainly driven by increase in inventory days. CARE Ratings Limited (CARE Ratings) expects JB's scale of operations to remain under pressure in the near-to-medium term with uncertain demand conditions in its key export destinations, which could further impact its operating cycle.

The rating continues to remain constrained by JD's working capital-intensive operations. Its profit margins remain constrained by stiff competition from unorganised and organised players, resulting in limited pricing power. The margins also remain exposed to fluctuations in prices of rough and polished diamonds and foreign exchange fluctuations. The rating also considers the risks associated with JB's status as a partnership concern, wherein substantial withdrawal from the capital account can adversely impact its capital structure. However, these weaknesses are tempered by the extensive domain experience of the management for over three decades and comfortable capital structure with overall gearing below unity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in scale of operations with revenue above Rs.500 crore
- Improvement in the PBILDT interest coverage ratio above 3x on a sustained basis

Negative factors

- Continued sluggishness in the demand for CPD impacting the sector, resulting in a decline in the TOI below ₹300 crore and the PBILDT margin below 1.2% and further stretch in the working capital cycle on a combined basis
- Deterioration in interest coverage ratio below 1.5x
- Deterioration in the liquidity profile of the firm

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that JB will continue to maintain a moderate financial risk profile in the medium term while benefiting from its established operational track record and experience of promoters.

Detailed description of key rating drivers:

Key weaknesses

Significant decline in the performance in FY24; likely to continue in the medium term

JB's scale of operations deteriorated by 40% to Rs. 379.88 crore FY24 (PY: Rs. 632.72 crore) on account of muted global demand for the polished diamonds during the period. The revenue share from exports continue to contribute ~50% to the total revenue

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

for FY24. In Q1FY25, the firm registered sales worth Rs.50 crore. Further, there is a dip in the absolute PBILDT during the period resulting a decline in the PAT which stood at 0.92% in FY24 as against 1.80% in FY23. Going forward, CARE Ratings expect JB's scale of operations to remain under pressure in the near-to-medium term with uncertain demand conditions in its key export destinations.

Elongation in the working capital cycle

JB's working capital cycle elongated from 63 days in FY23 to 122 days on account of long inventory holding period of 194 days in FY24. The firm's monthly inventory levels stand high resulting into average working capital utilisation of above 90% for past 12 months period ending May-2024. CARE Ratings will continue to monitor JB's operating cycle and further deterioration remains a key rating sensitivity.

Constitution as a partnership firm

The credit risk profile is constrained by the constitution of the firm as a partnership firm as there is an inherent risk of withdrawal of capital which limits its financial flexibility in turn increasing the vulnerability of the capitalisation and coverage metrics.

Susceptible to volatility in the prices of the diamonds and foreign exchange fluctuation risk

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. 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.

Key strengths

Adequate capital structure and moderate debt coverage indicators

The capital structure is marked adequate with working capital borrowings worth Rs. 50 crore and nil long-term borrowings against a net worth of Rs. 102.36 crore as on March 31, 2024. Hence, the overall gearing continues to remain below unity for FY24. The debt coverage indicators deteriorated significantly in FY24 on account of decline in the scale of operations with interest coverage ratio at 2.4x in FY24 (PY: 6x) and total debt/PBILDT at 4.8x in FY24 (PY: 2.8x) in FY24. Given the uncertainty regarding improvement in demand outlook, JB's debt coverage metrics are expected to remain constrained.

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 three decades of experience in G&J industry. JB is into manufacturing and trading of cut and polished Diamonds (CPD) of various size, shapes and grades and majorly deals in diamonds above 0.5 cents.

Geographically diversified client base with presence in key G&J markets

JB continues to derive significant share of revenue from export sales. During FY24, the export sales accounted for ~50% of total sales (FY23 – 55%). JB derives its major share of revenue from Hong Kong followed by USA, Israel, and UAE. During FY24, total share of revenue from top 5 export destination was 46% (FY23 – 52%). Further, the client concentration risk is moderate as top 10 customers contributed 22.24% in FY24.

Liquidity: Stretched

JB's liquidity is stretched on account of low gross cash accruals expected to be generated in FY25. The working capital limits of Rs.54 crore are utilised above 90% for the past 12-months period ending May-2024 providing limited cushion to the firm. The monthly inventory levels for past one year continues to be maintained at a high level despite the significant degrowth reported in the sales. Apart from vehicle loan, the firm has no term debt as of Sep-2024. The company has low cash and bank balance of Rs.1.50 crore as on September 27, 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cut and Polished Diamonds](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

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 (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	632.72	379.88	50.00
PBILDT	22.20	12.01	NA
PAT	11.38	3.51	NA
Overall gearing (times)	0.51	0.49	NA
Interest coverage (times)	6.47	2.43	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-EPC/PSC		-	-	-	25.60	CARE BB+; Stable
Fund-based - LT-Post Shipment credit		-	-	-	28.40	CARE BB+; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-EPC/PSC	LT	25.60	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Feb-24) 2)CARE BBB-; Stable (22-May-23)	1)CARE BBB-; Stable (03-Jan-23)	1)CARE BBB-; Positive (02-Mar-22)
2	Fund-based - LT-Post Shipment credit	LT	28.40	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Feb-24) 2)CARE BBB-; Stable (22-May-23)	1)CARE BBB-; Stable (03-Jan-23)	1)CARE BBB-; Positive (02-Mar-22)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

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

Annexure-5: Lender details

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

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

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About us:

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