Jewel One

December 02, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	285.00	CARE BBB; Stable / CARE A3	Downgraded from CARE BBB+; Negative / CARE A3+

Details of facilities in Annexure-1.

Rationale and key rating drivers

Downgrade in the rating assigned to long-term and short-term bank facilities of Jewel One (JOE) factors in elongation in the operating cycle with elongated receivables to its key customer which is contributing over 94% in total operating income (TOI) as seen in FY24 (FY refers to April 01 to March 31) and increased in 7MFY25 amidst ongoing demand slump in the CPD industry with lower demand from export markets.

However, ratings continue to derive strength from stable TOI with healthy profitability, partners' long track record in CPD industry, well-established clientele, comfortable capital structure, and debt coverage indicators.

However, ratings remain tempered with the firm's limited period of operations, high working capital intensity and profitability susceptible to diamond and gold prices volatility and foreign exchange rate fluctuations. Ratings also factor in its presence in a highly competitive industry and partnership of its constitution.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations over ₹1,500 crore and improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin on a sustained basis.
- Changing constitution of the firm without significant impact on the company's capital structure.
- Effective management of its working capital requirements leading to reducing reliance on working capital borrowings and improvement in receivable cycle on a sustained basis.
- Plough back of capital into business with sustained improvement performance, resulting in overall gearing below 0.7x on a sustained basis.

Negative factors

- Large debt-funded capex/withdrawal of capital resulting overall gearing deteriorating above 1x.
- Deteriorating liquidity profile of the firm due to significantly increasing receivables or inventory levels resulting in deteriorating operating cycle on a sustained basis.
- Deteriorating scale marked by TOI below ₹1,200 crore and PBILDT margin below 12% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that JOE will continue to benefit from its partners' extensive experience and established relationship with a key client, which will drive revenue growth in the near term.

Detailed description of key rating drivers:

Key strengths

Healthy profitability margins despite moderation in FY24

Being a jewellery manufacturer, JOE enjoys healthy profitability margins. In FY24, profitability marked by PBILDT margin continued to remain healthy; however, it experienced a moderation of 432 bps to 14.53% in FY24 against 18.85% in FY23. Moderation in PBILDT margin was considering high raw material (primarily diamond and gold) prices during the year. At net level, profitability decreased due to an increase in finance costs. Led by increased focus on lab-grown diamond-based jewellery and the

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

company's ability to source diamonds at competitive prices, profitability though moderated, continued to be healthy in FY24. CARE Ratings observes, margins are expected to remain healthy going forward considering JOE's diversified product offerings.

Long-standing experience of partner in CPD industry
JOE commenced its operations in June 2019 and manufactures studded and plain gold and silver jewellery at its facility in SEZ, Sachin (Surat). JOE is set up as a 100% export-oriented unit (EOU) to avail tax benefits and cater the low to mid-end jewellery market (average ticket size of US$350 to US$500 per piece). JOE's day-to-day operations are actively managed by Dinesh Lakhani, who has over three decades of industry experience and is the director of Kiran Gems Private Limited (KGPL) (rated CARE A; Negative / A2+). He is assisted by other partners and a team of qualified professionals. CARE Ratings observes that JOE is expected to benefit from its partners' long-standing experience and their association with KGPL.

Well-established clientele, despite high concentration risk
JOE primarily caters US markets, selling its jewellery to Unique Design Inc., which sells jewellery to large retailers such as Tiffany, Signet, Costco, Zale, Fred Meyer, Macy's, and Wall Mart among others. Apart from sales through marketing affiliates in the US, JOE is also in the process of selling directly to jewellery retailers globally to lower the customer concentration risk. In FY24 and 7MFY25, sales to Unique Design Inc. accounted for about over 94% (FY23: 92.41%) of its total sales. Going ahead, the customer concentration is expected to improve, as JOE has plans to sell directly to jewellery retailers globally.

Comfortable capital structure and debt coverage ratios
JOE's capital structure is comfortable marked by an improved total outside liabilities/tangible net worth (TOL/TNW) of 1.04x as on March 31, 2024, compared to 1.10x as on March 31, 2023. Overall gearing also improved to 0.84x as on March 31, 2024, from 0.95x as on March 31, 2023. Improvement in overall gearing was due to an increase in net worth with stable debt levels. Moreover, the interest coverage ratio deteriorated driven by increase in interest rates but remained at comfortable levels in FY24 at 8.87x (PY: 11.93x). Interest costs increased from ₹16.52 crore in FY23 to ₹21.52 crore in FY24.

Key weaknesses

Elongation in receivable period resulting in high working capital intensity
JOE's operations, inherent to the industry, are working capital intensive primarily because it has to extend credit to its customers. However, JOE has been efficiently managing working capital cycle to keep it below four months considering order backed sales, resulting in lower inventory and collection from debtors largely aligned with the credit period. However, in FY24, the working capital cycle deteriorated to 114 days from 96 days in FY23. Deterioration in cycle was due to increase in collection days from 67 days in FY23 to 94 days in FY24. In absolute terms, receivables increased from ₹291.04 crore in FY23 to ₹403.80 crore in FY24. As on November 19, 2024, the total receivables further increased to ~₹555 crore. Receivable remain mainly concentrated to a single customer. Same was funded though mix of working capital borrowing, funds from partners and elongation in creditor period.

Limited track record of JOE's business operations though the firm will benefit from long-standing experience of partners
JOE commenced operations for a part of FY20. Despite JOE being newly incorporated entity, it continues to benefit from its long-standing experience of partners and robust distribution network setup by the partners over the years evident from improvement in JOE's TOI by over 28% from ₹1,045.82 crore in FY23 to ₹1,340.60 crore in FY24. Improvement in TOI was owing to increased sales volume and improved sales realisation in FY24. Furthermore, JOE reported TOI of ₹888.74 crore in 7MFY25 (UA).

Partnership firm
JOE was incorporated as partnership firm. The firm's credit risk profile is constrained by the entity's constitution as there is an inherent risk of capital withdrawal in a partnership firm.

Susceptible to foreign exchange fluctuation
Being 100% export-oriented unit, JOE continues to derive its revenue from export sales amounting ₹1,340.60 crore in FY24, thus exposing itself to foreign exchange fluctuation risk. However, JOE also imports precious metals, which naturally hedges foreign exchange risk to some extent. The total amount of imports in FY24 was ₹390.34 crore (equivalent to over 34% of total purchase), while balance forex exposure is hedged by entering forward contracts. The firm has reported forex gain of ₹16.36 crore in FY24 against ₹15.59 crore in FY23.

Volatility in diamond and gold price
JOE does not have sourcing arrangements with diamond mining companies. It procures polished diamonds largely from KGPL, with a credit period of 90-120 days. The firm procures gold from third parties in India and imports it from the UAE at spot price, thus exposing it to gold and diamond prices volatility. However, increasing trend in gold prices and uncertainties in diamond prices can impact production costs and profit margins.

Sluggish demand scenario and fragmented CPD industry
India is the world's largest centre for cutting and polishing of diamonds accounting for over 90-95% of the total world's polished diamond consumption. However, the CPD industry in India is highly fragmented with numerous unorganised players, in addition to large integrated G&J manufacturers, leading to a high level of competition. As a result of global inflationary trends, adverse macroeconomic environment and opening of experienced-based spending has led to overall decline in demand for natural

diamonds, which is discretionary. Moreover, increasing penetration of lab grown diamond (LGD) continues to further impact the demand for natural diamonds. Consequently, total CPD exports from India declined by 28% to US$15.97 billion (PY: US$22.04 billion) in FY24. The demand-supply imbalance has pressured pricing of polished diamonds, leading to price correction estimated at 5-10% for diamonds below 0.3 carats, 20-30% for 0.3-3 carat diamonds, and 10-20% for diamonds above 3 carats in CY23. This imbalance and price correction have adversely affected export value.

Liquidity: Adequate

JOE's liquidity is adequate marked by gross cash accruals (GCA) of ₹136.68 crore and unencumbered cash and bank balance of ₹4.82 crore as on March 31, 2024. Also, cash flow from operations stood positive at ₹137.52 crore as on March 31, 2024. Going forward, JOE's liquidity is expected to remain adequate as indicated by expected GCA between ₹150-160 crore in FY25 and FY26 against a repayment obligation of ₹5.01 crore and ₹5.40 crore in this period, respectively. Moreover, the average working capital utilisation stayed high at over 90% for the last 12 months ended in October 2024, but since November 01, 2024, the fresh limit utilisation has been nil with timely repayment.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

JOE was Incorporated on July 16, 2017, as a partnership firm and commenced its operations in October 2019. The firm is in manufacturing diamond-studded and plain gold and silver jewellery at its facility at SEZ, Sachin (Surat). The firm is 100% export-oriented unit (EOU). JOE is managed by Dinesh Lakhani, Director of KGPL, who has over three decades of experience in G&J business.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	1,045.82	1,340.60	888.74
PBILDT	197.14	194.74	NA
PAT	180.16	172.38	NA
Overall gearing (times)	0.95	0.84	NA
Interest coverage (times)	11.93	8.87	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

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/ ST-Working Capital Limits		-	-	-	260.00	CARE BBB; Stable / CARE A3
Fund-based - LT/ ST-Working Capital Limits		-	-	-	25.00	CARE BBB; Stable / CARE A3

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/ ST-Working Capital Limits	LT/ST	260.00	CARE BBB; Stable / CARE A3	1)CARE BBB+; Negative / CARE A3+ (23-Aug-24)	1)CARE BBB+; Stable / CARE A3+ (22-Sep-23)	1)CARE BBB+; Stable (10-Oct-22)	1)CARE BBB; Stable (07-Oct-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	25.00	CARE BBB; Stable / CARE A3	1)CARE BBB+; Negative / CARE A3+ (23-Aug-24)	1)CARE BBB+; Stable / CARE A3+ (22-Sep-23)	1)CARE A3+ (10-Oct-22)	1)CARE A3 (07-Oct-21)

LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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