Derewala Jewellery Manufacturing Company Private Limited

January 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	26.00	CARE BBB+; Stable / CARE A3+	Assigned
Short Term Bank Facilities	4.00	CARE A3+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the rating of Derewala Jewellery Manufacturing Company Private Limited (DJMCPL), CARE Ratings Limited (CARE Ratings') has considered the combined analytical view of, DJMCPL and Derewala Industries Limited (DIL), collectively known as Derewala Group (DG) as both entities are commonly promoted, have presence in similar line of business and have operational linkages.

Ratings assigned to the bank facilities of DJMCPL derives strength from its experienced promoters with long track record of operations in gems and jewellery industry, moderate scale of operations with diversified product portfolio, reputed customer base with moderate customer concentration, moderate financial risk profile with healthy profitability and adequate liquidity.

However, ratings are constrained due to sizeable working capital requirements, scaling up risk associated with the debt funded capex and its presence in a highly competitive and fragmented gems and jewellery business with susceptibility to foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in scale of operations above Rs.800 crore with sustenance of Profit before Interest, Lease, Depreciation and Taxes (PBILDT) margin.
- Improvement in overall gearing below 0.5x on sustained basis.

Negative factors

- Decline in overall gearing above 1.5x
- Elongation in operating cycle above 175 days on sustained basis

Analytical approach: Combined

For arriving at DJMCPL's credit rating, CARE Ratings' has taken combined view of DJMCPL and DIL as both the entities are commonly promoted, operating in similar line of business and have operational and financial linkages.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that the company shall continue to benefit from its experienced promoters and reputed clientele and sustain its financial risk profile in the medium term.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long track record of operations in the Gems & Jewellery industry

Founded in 1986, DG is currently led by Pramod Kumar Agrawal and his brother Yogendra Garg, both having over 30 years of industry experience. Pramod Kumar Agrawal holds the role of Vice President at The World Jewellery Confederation (CIBJO) and chairs the National Gems & Jewellery Council, a central government body. He has previously served as Chairman of the Gem and Jewellery Export Promotion Council (GJEPC) at the all-India level. Additionally, family members of Yogendra Garg have joined the business, contributing their expertise and knowledge to its operations.

Moderate scale of operations with healthy profitability

DG's total operating income (TOI) grew moderately at ~3.5% Cumulative Annual Growth Rate (CAGR) in the last three years and reported TOI of ₹547.62 crore for FY24 (FY refers to the period between April 01 to March 31), up from ₹523.69 crore in FY23. Increase in TOI was primarily driven by better sale realisation of gold and silver jewellery, and increased sales volume of fashion jewellery. Further, the group has reported TOI of ~₹252 crore during H1FY25 (provisional).CARE Ratings expects DG to achieve TOI of around Rs.600 crore in FY25.

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

DG's PBILDT margin remained healthy in the range of 12% to 14% in the last three years, posting a PBILDT margin of 14.00% in FY24, improved by 83 basis points compared to FY23, attributed to a shift in sales mix towards higher-margin products such as silver jewellery and fashion jewellery. Further, DG has reported PBILDT margin of 15.92% during H1FY25(provisional).

Reputed customer base with moderate customer concentration
DG's customer base includes renowned fashion jewellery brands and gold and silver jewellery retailers, in India and worldwide, such as Pandora Production Company Limited, Oliver Bonas Limited, and Oro Galore, among others. In the last three years, the top five customers have contributed, on average, about 60% to the total operating income (TOI) of DIL and roughly 70% to the TOI of DJMCPL. This concentration in customer revenue poses a risk; however, some of these top customers are prestigious clients with low credit risk.

Moderate financial risk profile
DG has a moderate capital structure with an overall gearing of 0.68x for FY24 (FY23: 0.80x). Outstanding debt was majorly in the form working capital borrowings with a minimal term debt. Overall gearing adjusted for investments in group company also remains moderate at 0.94x for FY24 (FY23: 1.04x). Further, the group has moderate debt coverage indicators marked by PBILDT interest coverage of 5.58x (5.39x in FY23) and total debt to gross cash accruals (TD/GCA) of 3.24x in FY24 (3.51x in FY23).

Key weaknesses
Sizeable working capital requirements
The operations of the group are working capital intensive marked by operating cycle of 162 days for FY24, same days as on FY23, driven by high inventory days of 147 days (FY23: 143 days) to cater to the customer demand. Around 68% of this working capital requirement is funded by working capital borrowings from banks and balance from own sources (including internal accruals). Efficient management of the working capital cycle and improvement in liquidity position will remain crucial from credit perspective.

Completion and scaling up risk associated with ongoing capex
The group is currently setting up a jewellery manufacturing unit under DJMCPL at a project cost of Rs.70.70 crore, which is expected to be funded through term loan of Rs.45 crore and remaining from the internal accruals. Financial closure for the project is not yet achieved. The construction of building is under progress and expected to be operationalised in April 2025 in a phased manner. The company has already incurred cost around Rs.15.31 crore till December 11, 2024, funded entirely from the internal accruals. Revenue from this new facility is primarily expected to be from the existing customers of the group. DG's ability to complete the project on time and scale up the project remains crucial from the credit perspective.

Presence in highly competitive and fragmented jewellery business
The Gems and Jewellery (G&J) industry is a fragmented industry with a high level of competition from organised and largely unorganised players. The global macro-economic environment continues to remain uncertain and poses a major challenge for the G&J industry, which is mainly export-driven. In wake of the recent adverse global macro-economic developments and geopolitical situations, the G&J industry has seen a slowdown in demand, impacting the credit period offered by players to customers.

Susceptibility to foreign currency fluctuations
Around 50% of group's sales are derived from exports, exposing the group to foreign currency fluctuations. However, the group imports its raw materials to an extent, which acts as a natural hedge against foreign currency fluctuations, partially mitigating the risk.

Liquidity: Adequate

DG's liquidity is adequate marked by healthy cash accrual generation and almost negligible debt repayment obligation. DG generated Gross Cash Accruals (GCA) of ₹50.15 crore in FY24. The group's free cash and bank balance stood at ₹3.82 crore as on March 31, 2024. Cash flow from operations was positive at ₹49.71 crore in FY24. However, average bank line utilisation for the 12-months ending September 2024 stood moderately high at 88.11% for DIL and 84.72% for DJMCPL. DG's current ratio stood at 1.36x for FY24 (FY23: 1.39x), and quick ratio stood at 0.42x (FY23: 0.48x).
Loans and advances (including capital advances) has increased to Rs.46.12 crore as on September 30, 2024, as against Rs.37.64 crore as on March 31, 2024. The group expects to recover/ capitalize a part of this advances granted in Q4FY25.

Assumptions/Covenants – Not applicable

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

Applicable criteria

Consolidation
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

Founded by Pramod Agrawal in 1986 as a proprietorship, DG evolved into DIL in 2007 and DJMCPL, an SEZ unit in Jaipur engaged in jewellery manufacturing. DG serves retailers, jewellery manufacturers, and wholesalers globally with a portfolio including gold and silver jewellery such as rings, pendants, bracelets, and beaded jewellery.

Brief Financials (₹ crore) – DG (Combined)	March 31, 2023 (UA)	March 31, 2024 (UA)	September 30, 2024 (UA)
Total operating income	523.69	547.62	252.38
PBILDT	68.98	76.65	40.19
PAT	41.11	43.06	24.45
Overall gearing (times)	0.80	0.68	NA
Interest coverage (times)	5.39	5.58	5.63

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

Brief Financials (₹ crore) – DJMCPL (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	102.12	123.30	57.87
PBILDT	27.55	31.25	14.57
PAT	19.34	20.93	10.25
Overall gearing (times)	0.33	0.29	NA
Interest coverage (times)	22.19	16.31	13.75

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	26.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Standby Letter of Credit		-	-	-	4.00	CARE A3+

CareEdge RATINGS

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	26.00	CARE BBB+; Stable / CARE A3+				
2	Non-fund-based - ST-Standby Letter of Credit	ST	4.00	CARE A3+				

ST: Short term; LT/ST: Long term/Short 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/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Standby Letter of 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 044-28501001 E-mail: pradeep.kumar@careedge.in	Ujjwal Manish Patel Associate Director **CARE Ratings Limited** Phone: 079-40265649 E-mail: ujjwal.patel@careedge.in Nisarg Shah Lead Analyst **CARE Ratings Limited** E-mail: Nisarg.shah@careedge.in

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.

For detailed Rationale Report and subscription information, please visit www.careedge.in