D.P. Abhushan Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	56.06 (Reduced from 59.68)	CARE A-; Stable	Upgraded from CARE BBB+; Positive
Long-term / Short-term bank facilities	158.00 (Enhanced from 132.85)	CARE A- / CARE A2+	Upgraded from CARE BBB+; Positive / CARE A2
Long-term / Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of D. P. Abhushan limited (DPAL) is considering fructification of positive sensitivity with healthy growth in its scale of operations in FY24 (refers to the period from April 01 to March 31) and H1FY25 driven by strong same store sales growth (SSSG) while maintaining its moderate profitability.

Ratings continue to derive strength from experience of its promoters in the jewellery retail market and its well-established operational track record of over eight decades leading to strong brand recall 'DP Jewellers' in the MP and Rajasthan jewellery market. Ratings also take into consideration DPAL's efficient inventory management, comfortable financial risk profile and adequate liquidity.

However, ratings continue to remain constrained considering DPAL's moderate profitability, which is susceptible to volatile gold prices, inherent regulatory risk and, its presence in a highly fragmented and competitive gems and jewellery (G&J) industry.

The company has availed enhancement in fund-based working capital limits, and hence, the proposed facility is withdrawn and reclassified under working capital limits.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant volume-driven-growth in scale of operations supported by new store addition and improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 6% on a sustained basis.

Negative factors

- Decline in sales volume leading to its total operating income (TOI) falling below ₹2000 crore with PBILDT margin below 3% on a sustained basis.
- Significant elongation in operating cycle to over 75 days leading to higher utilisation of its working capital limits.
- Deterioration in overall gearing beyond unity on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that DPAL will continue to benefit from its experienced promoters, well-established operational track record and strong brand recall in MP and Rajasthan jewellery market.

Detailed description of key rating drivers:

Key strengths

Growing scale of operations backed by increasing revenue per square feet

DPAL has reported healthy y-o-y growth of 18% in TOI in FY24. It increased to ₹2340 crore compared to ₹1975 crore in FY23, supported by strong growth reported across all its eight stores. While sales volume of gold ornaments remained largely stable in FY24, growth was supported by increase in gold prices. Growth continued in the current year as well with TOI of ₹1,509 crore in H1FY25 compared to ₹1,017 crore in H1FY24 backed by strong SSSG and reduction in import duty on gold, which boosted demand. Average revenue per square feet increased from ₹4.88 lakh in FY23 to ₹5.78 lakh in FY24 with strong foothold in Tier-II and Tier-III cities of Madhya Pradesh and Rajasthan.

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

CARE Ratings expects DPAL to report healthy growth in its scale of operations in the medium term, backed by SSSG and additional revenue generation from newly opened stores. The company opened one store in Ajmer in September 2024 and another in Neemuch in November 2024. DPAL plans to open additional 10 new stores in the next four years.

Comfortable capital structure and debt coverage indicators
DPAL's capital structure remained comfortable marked by below unity overall gearing of 0.72x as on March 31, 2024 (0.66x as on March 31, 2023). DPAL has low long-term debt and reliance on bank borrowings continued to remain moderate for meeting working capital requirement due to prudent inventory management. Its debt coverage indicators also stand comfortable marked by an interest coverage of 7.38x (FY23: 6.02x) and total debt to gross cash accruals (TD/GCA) of 2.56x (FY23: 2.63x) in FY24. In the current year, DPAL issued 3,56,070 equity shares for ₹42.08 crore on preferential basis and 2,17,000 fully convertible warrants for ₹25.64 crore aggregating to ₹67.74 crore, which has further augmented the networth base of the company. The said funds shall be utilised towards capex for opening new stores and its incremental working capital requirement. The company has received amount of ₹42.08 crore of preferential issue and ₹6.44 crore of convertible warrants up to July 2024.

Prudent working capital management
Being a jewellery retailer, the company maintains a wide variety of designs of finished goods inventory at its showrooms for display and sales, in addition to the bullion. This normally leads to high inventory holding and working capital intensity. DPAL meets its requirements through low-cost sources of funds including customer advances, internal accruals, and unsecured loans from promoters, apart from working capital limits. In FY24, DPAL reported an inventory turnover ratio of 5.63x (FY23: 5.48x) ensuring faster rotation of inventory. DAPL has a centralised system for managing inventory at its head office at Ratlam and follows inventory replenishment model for hedging. CARE Ratings believes that the company will continue to prudently manage its working capital in the medium term.

Experienced promoter and well-established operational track record of over eight decades in jewellery retail backed by strong brand presence in MP and Rajasthan market
Promoted by Late Dhulchand Kataria in 1940, DPAL started as a sole proprietorship firm and was later converted to partnership firm, which was converted into a public limited company in 2017. DPAL got listed on NSE in November 2017. Currently, DPAL is managed by the third and fourth generation, Ratanlal Kataria, Anil Kataria, Santosh Kataria and Vikas Kataria. Promoters are assisted by a team of well-qualified professionals. The company has well-established operational track record of over eight decades in the G&J industry under its brand name 'DP Jewellers' and over the years it has built strong brand recall and trust among consumers especially in the MP and Rajasthan gold jewellery retail segment. Currently, DPAL operates eight mid-large format showrooms with combined store area aggregating to 54,217 sq. ft as on November 30, 2024. In the medium term, DPAL's expansion of retail network is expected to further strengthen its presence and brand in the gold retail market.

Key weaknesses
Moderate profitability
DPAL's PBILDT and profit after tax (PAT) margin remained stable between 4%-5% and 2%-3% respectively in the last five years ended FY24. In FY24, PBILDT margin improved to 4.38% compared to 3.97% in FY23. This further increased to 5.05% in H1FY25 with growth in scale of operations resulting in better absorption of overheads. In absolute terms, PAT increased to ₹61.86 crore (FY23: ₹45.32 crore) with GCA at ₹65.25 crore (FY23: ₹48.03 crore).

Presence in highly competitive and fragmented G&J industry
The retail gold jewellery industry is highly fragmented with a high level of competition from organised and largely unorganised sector catering to different customer segments. These factors combined, limits pricing flexibility and scope for margin expansion.

Exposure to gold price volatility; mitigated to a certain extent by inventory replenishment
Key raw material, Gold, constituting over 90-95% of its total cost, has exhibited sharp volatility in the past and continues to be driven by global demand supply dynamics, economic growth, forex and interest rates, among others. Moreover, jewellery demand is largely discretionary and is directly linked with macroeconomic factors such as disposable income, inflation levels, and consumer sentiments, among others However, inventory replenishment model followed by DPAL helps in mitigating risk associated with volatility in gold prices to an extent.

Susceptibility to regulatory risks in the jewellery industry
The G&J sector has been one of the most regulated sectors, given that gold makes India's second-largest import bill after petroleum. High regulatory intervention by the Government of India has been observed in the past in terms of import tariffs, gold deposit schemes, mandatory PAN disclosure requirement for purchases above the threshold limit among others. The sector

continues to be vulnerable to regulatory risk, as adverse measures taken by the government, or the Reserve Bank of India (RBI) will pose a risk to demand for gold. While the demand for gold jewellery has remained largely undeterred due to above changes given affinity for gold jewellery as an investment, significant policy change may pose a risk to the demand/ supply of gold in the domestic market. In July 2024, reduction in basic custom duty on precious metals such as gold and silver improved the jewellery demand for a short period.

Liquidity: Adequate

DAPL has adequate liquidity marked by moderate utilisation of working capital limits, low long-term debt repayment obligations, moderate operating cycle, and high inventory turnover ratio. Average utilisation of working capital facilities remained moderate at ~50% during the trailing 12 months ended November 2024, and its operating cycle remained comfortable at 54 days in FY24 (FY23: 55 days) owing to efficient inventory management. Retail business model and credit period availed from jewellery suppliers help DAPL in managing its working capital intensity. Free cash and bank balances stood at ₹29.21 crore as on March 31, 2024 (As on March 31, 2023; ₹5.03 crore) and additional cushion is available in the form of unutilised cash credit limit (total sanctioned limit: ₹209 crore). DAPL is envisaged to have nominal long-term debt repayment obligation of ₹7-9 crore in FY25-FY27. Current ratio stood comfortable at 1.67x as on March 31, 2024. (As on March 31, 2023: 2.02x).

Assumptions/Covenants: Not applicable

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
Withdrawal Policy
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

DPAL (CIN: L74999MP2017PLC043234) was incorporated as a sole proprietorship firm in the name of "M/s D.P. Jewellers" by Late Dhulchand Ji Kataria 1940. DAPL is engaged in manufacturing, selling and trading Gold Jewellery, Diamond Jewellery, Platinum Jewellery, Silver Jewellery and other precious Metals. Over s, DPAL has expanded into a retail chain with total 10 branches at Ratlam, Indore, Udaipur, Bhopal, Ujjain, Bhilwara, Kota, Banswara, Ajmer and Neemuch with total area aggregating to 54,217 sq. ft as on November 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1,975.12	2,339.96	1509.41
PBILDT	78.37	102.53	76.22
PAT	45.32	61.86	50.21
Overall gearing (times)	0.66	0.72	0.79
Interest coverage (times)	6.02	7.38	12.81

A: Audited; UA: Unaudited; 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-Cash Credit		-	-	-	51.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	February 2026	5.06	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	158.00	CARE A- / CARE A2+
Fund-based/Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for last three year

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	158.00	CARE A- / CARE A2+	-	1)CARE BBB+; Positive / CARE A2 (02-Jan-24)	-	-
2	Fund-based - LT-Term Loan	LT	5.06	CARE A-; Stable	-	1)CARE BBB+; Positive (02-Jan-24)	-	-
3	Fund-based - LT-Cash Credit	LT	51.00	CARE A-; Stable	-	1)CARE BBB+; Positive (02-Jan-24)	-	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)CARE BBB+; Positive / CARE A2 (02-Jan-24)	-	-

LT/ST: Long term/Short term; 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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Fund-based/Non-fund-based-LT/ST	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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