

Darpan Jewels (Gujarat) LLP

March 23, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	15.00 (Reduced from 30.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	15.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	30.00 (Rs. Thirty Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Darpan Jewels (Gujarat) LLP (DJG) continue to derive strength from its experienced and resourceful partners, its moderate scale of operations and adequate liquidity. The ratings also take cognizance of significant improvement in DJG's capital structure as on December 31, 2021.

The ratings, however, remain constrained by DJG's thin profitability which is susceptible to fluctuations in gold prices, constitution as limited liability partnership firm and its presence in highly fragmented and competitive gems and jewellery (G&J) industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in its scale of operations by more than 30% y-o-y along with PAT margin of more than 3% on a sustained basis
- Improvement in solvency position as marked by overall gearing ratio below 0.5 times and TDGCA of lower than 7 years with efficient management of its working capital.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations and GCA by 40% or more on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful partners

DJG is promoted and managed by Mr. Chirag Lakhi and Mr. Viral Shah. Mr. Chirag Lakhi belongs to Lakhi family, which through its two entities M/s. Vishindas Holaram (VH), constituted in 1944, and M/s. Dilipkumar V. Lakhi (DVL), constituted in 1970 has an established presence in the Cut Polished Diamond (CPD) industry of over seven decades. DVL is a DTC sightholder and has established its position in domestic and international CPD markets. DJG benefits from the experience of its partners as well as their established position in the G&J market. Mr. Viral Shah, designated partner, who has a decade long experience, was also associated with few other firms belonging to same line of industry.

Improvement in capital structure

DJG's capital structure improved significantly marked by an overall gearing ratio of 0.47 times as on March 31, 2021 against 2.36 times as on March 31, 2020. Improvement is mainly on account of decrease in creditors on LC, increase in tangible net worth due to infusion of capital of Rs.4.50 crore by the partners. DJG does not have any long term debt and reliance on short term debt for working capital requirements has also reduced.

Debt coverage indicators marked by Total Debt to Gross Cash Accruals and Interest coverage ratio remained stable at 20.87 years (FY20: 28.36 years) and 1.57 times (FY20: 2.60 times) during FY21.

Key Rating Weaknesses

Moderation in scale of operations and modest profitability

The total operating income (TOI) of DJG moderated by around 27% y-o-y to Rs.101.30 crore in FY21 primarily on account of reduction in sales volume due to lacklustre demand owing to COVID-19 related disruptions and lockdown restrictions. The dip in volume was partially offset by increase in gold prices. As per provisional financials for 11MFY22, DJG reported TOI of around Rs.137 crore.

DJG's profitability continues to remain modest marked by PBILDT and PAT margin of 1.64% (FY20: 2.01%) and 0.39% (FY20:0.79%) respectively.

Removal of personal guarantee of Mr Dilip Kumar V. Lakhi

Mr. Dilip Kumar V. Lakhi (partner in M/s. Dilip Kumar V. Lakhi) had extended personal guarantee for the bank facility availed by DJG. However, as per/ the latest sanction terms, the bank has withdrawn the personal guarantee given by Mr. Dilip Kumar V. Lakhi. Nevertheless, personal grantee of Mr. Chirag Lakhi (son of Mr. Dilip Kumar V. Lakhi and a partner in DVL) is still intact.

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

Constitution as a limited liability partnership (LLP) firm

Being a partnership firm, DJG is susceptible to risk associated with withdrawal/ transfer of capital by the partners which may lead to deterioration in the firm's capital structure. However, in FY21 Partner's infused capital of around Rs. 4.50 crore as against withdrawal of Rs.2.91 crore during FY20.

Presence in a highly fragmented and competitive G&J industry

The G&J jewellery industry is highly fragmented with presence of numerous independent small-scale enterprises in unorganized sector and few large players in organized sector. High competition in the operating spectrum and moderate size of the firm limits the scope for improvement in its margins, pricing power and market share. However, this is partially mitigated by the partners' experience in G & J industry and established clientele. Top 5 customers of DJG contributed around ~43% of TOI during FY21 (~31% of TOI in FY20).

Liquidity: Adequate

Liquidity remained adequate in absence of any long term debt obligations, however the operating cycle elongated from 30 days in FY20 to 64 days in FY21 mainly on the account of upfront payment for raw materials and jewellery procured from suppliers. Average of maximum working capital utilization remained moderate at around 64% for trailing 12-month period ended on February 2022. The cashflow from operations was Negative in FY21 due to upfront payment for raw materials and jewellery procured from suppliers.

Analytical approach: Standalone while factoring linkages with promoter group (lakhi group) which overlooks operations and finance of DJG.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the Firm

Ahmedabad- based (Gujarat) DJG was established in the year 2015 by Mr. Viral Shah, Mrs. Donika Shah and Mr. Chirag Dilip Kumar Lakhi. Mrs. Donika Shah ceased to be a partner of DJG and Ms. Meena Shah was introduced as a partner effective from November 01, 2018. DJG is engaged in the business of wholesale trading of gold jewellery.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (Prov)
Total operating income	141.08	101.20	106.69
PBILDT	2.84	1.66	2.53
PAT	1.12	0.40	1.12
Overall gearing (times)	2.36	0.47	0.61
Interest coverage (times)	2.60	1.57	6.84

A: Audited, Prov: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	15.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST- Standby Line of Credit		-	-	-	15.00	CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	15.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (08-Jan-21)	1)CARE BBB-; Stable / CARE A3 (03-Jan-20)	1)CARE BBB-; Stable / CARE A3 (27-Nov-18)
2	Non-fund-based - ST-Standby Line of Credit	ST	15.00	CARE A3				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - ST-Standby Line of Credit	Simple

Annexure 5: Bank Lender Details for this Company

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

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

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