

Deccan Jewellers Private Limited

January 05, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	29.00	CARE B+; Stable [Single B Plus; Outlook: Stable]	Revised from CARE BB-; Stable [Double B Minus; Outlook: Stable]
Total Facilities	29.00 (Rs. Twenty Nine crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facility of Deccan Jewellers Private Limited (DJPL) factors in decline in revenues and margins resulting in cash losses during FY17 (FY refers to the period from April 01 to March 31) and deterioration in capital structure on account of erosion of net worth. The rating continues to take into account the price risk associated with inventory on account of volatility in gold prices impacting margins, working capital intensive nature of operations and presence in a highly competitive and fragmented gold and jewellery industry. The rating is however, underpinned by the long-standing experience of the promoters with over three decades of experience in the business, established and favourable brand image and favourable industry prospects over the medium term. The rating also takes into account infusion of funds by promoters to support the operations and debt servicing of the company. The ability of the company to improve its operational and financial risk profiles are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in total income and margins resulting in cash losses for FY17: The total operating income of the company declined during FY17 on account of the demonetization of the currency. The company registered operating losses and cash losses at the back of increased raw material costs and interest burden. The company has utilized funds infused by promoters in the form of unsecured loans (Rs. 2.03 crore) and available Fixed Deposits (Rs. 4 crore) for debt servicing.

Deterioration in capital structure as on March 31, 2017: The capital structure of the company witnessed deterioration as on March 31, 2017 vis-a-vis March 31, 2016 at the back of erosion in net worth due to loss incurred during FY17.

Price risk associated with inventory on account of volatile gold prices: DJPL earns around 90 – 95% of its revenue from sale of gold jewellery. With DJPL's high level of inventory in hand, it is exposed to adverse price movements in gold, which can consequently have a bearing on the margin and the overall financial risk profile of the company.

Working capital intensive nature of business: Being a jewellery retailer, DJPL has to maintain high level of inventory for the display and sales to the customers at its showrooms. The working capital cycle stands at 185 days in FY17 and working capital utilization levels continue to remain high.

Presence in highly competitive and fragmented gold jewellery industry: The Gem & Jewellery industry in India is characterized by the presence of a large number of organized and unorganized players with the share of organized jewellery retail sector (comprising national and regional retail chains) at a mere 20%.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Strengths

Experienced promoters and established brand name: DJPL is closely held and managed by the family members of the promoters, who belong to Mohammed Khan & Sons Group, which has been in the jewellery business since 1936 and has built a strong brand reputation in Andhra Pradesh.

Infusion of funds by promoters in the form of unsecured loans: The promoters continue to extended financial support to the company by way of unsecured loans from the directors. During FY17, the directors have infused around Rs. 2.03 crore in the form of unsecured loans.

Geographically diversified revenue stream: DJPL continues to diversify its revenue stream through its 5 retail outlets spread across Vijaywada, Rajahmundry, Kakinada, Warangal and Vizag. Vijaywada and Rajahmundry continue to remain the highest sales contributors during FY17.

Favourable industry prospects: Retail jewellery segment in the country is expected to see double digit growth rates in revenue in FY18 on back of regulatory headwinds fading out and continued favourable demographics. Overall domestic gems & jewellery demand would see a growth of 6% - 7% in volume terms over a medium term.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology – Manufacturing Companies](#)

[CARE's Methodology - Retail Trade](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Deccan Jewellers Private Ltd (DJPL) was incorporated in February 2005 by families of Mr. Azizul Rahaman Khan and Mr. Fazulul Rahaman Khan, who belong to the Mohammed Khan & Sons family. DJPL is mainly engaged into retailing of gold (BIS Hallmark) ornaments and also deals with silver, diamond and branded jewelry. DJPL currently has five retail outlets with a total area of 20,000 square feet (sft.) spread across Vijaywada, Rajahmundry, Kakinada, Warangal, and Vizag. The operations are being carried out under the brand name of 'Mohammed Khan & Sons Jewellers'. Presently, Mr. Fazalul Rahaman Khan and his son, Mr. Irfan Khan (Managing Director) run the company.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	101.50	86.33
PBILDT	-2.46	-10.55
PAT	-8.27	-15.68
Overall gearing (times)	1.55	3.30
Interest coverage (times)	-0.47	-2.20

A: Audited

Status of non-cooperation with previous CRA: The rating of Deccan Jewellers Private Limited has been suspended by CRISIL Limited vide its press release dated November 19, 2012 on account of non-cooperation.

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	29.00	CARE B+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Limits	LT	29.00	CARE B+; Stable	-	1)CARE BB-; Stable (09-Jan-17)	1)CARE BB (30-Nov-15)	1)CARE BB (05-Dec-14)

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