

Deccan Jewellers Private Limited

January 09, 2017

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	29.00 (reduced from Rs. 35.00 crore)	CARE BB-;Stable (Double B Minus; Outlook: Stable)	Revised from CARE BB (Double B)
Total Facilities	29.00 (Rupees Twenty Nine crore only)		

Details of instruments/facilities in Annexure-1

Details Rationale

The revision in the rating assigned to the bank facilities of Deccan Jewellers Pvt. Ltd (DJPL) is on account of decline in total income and margins resulting in losses during FY16 (FY refers to the period from April 01 to March 31). The rating revision also factors in medium term negative impact on domestic market especially for gold. The rating continues to remain constrained by the volatility in gold prices and inventory risks associated thereof impacting the profitability margins of the company, presence in a highly competitive and fragmented industry and working capital intensive nature of business with high utilisation of fund-based limits. The rating also factors in deterioration in capital structure as on March 31, 2016. However, the rating is underpinned by experienced promoters, established brand name and geographically diversified revenue stream.

The ability of the company to increase its scale of operations, improve its profitability margins while managing the volatility in gold prices efficiently are the key rating sensitivities.

Detailed Description of the key rating drivers

The total operating income of the company declined by around 17% in FY16 and was at Rs. 101.50 crore. The company registered loss at PBILDT level during FY16 primarily on account of increased contribution towards raw materials. PBILDT margin also declined on account of same. Further, on account of high interest burden, the company registered net loss of Rs. 8.27 crore during FY16 as against profit of Rs. 1.71 crore during FY15.

The capital structure of the company witnessed deterioration as on March 31, 2016 vis-a-vis March 31, 2015 at the back increased debt levels coupled with erosion in net worth due to loss incurred during FY16.

Being a jewellery retailer, DJPL has to maintain high level of inventory for the display and sales to the customers at its showrooms. Generally, DJPL maintains stocks around half of its annual turnover at its showrooms for the display. As the company holds high level of inventory, any sharp fall in gold prices

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

for a larger timeframe may lead to diminution in the value of the high level of inventory that DJPL carries. This risk to an extent is mitigated as the company replenishes its stock when the sale happens, either on the same day or the next day. Considering the working capital intensive nature of business, the operating cycle of the company remains elongated although improved marginally from 237 days in FY15 to 230 days in FY16 at the back of decline in inventory holding period from 248 days in FY15 to 242 days in FY16.

DJPL continues to diversify its revenue stream through its 5 retail outlets spread across Vijaywada, Rajahmundry, Kakinada, Warangal and Vizag. The company operates in tier II and tier III cities within A.P and Telangana, wherein numerous small and unorganised players compete with each other. These cities also have been experiencing entry of number of organised and branded players intensifying the competition.

Recent demonetization of high value currency notes in India is expected to have negative impact on consumer spending (especially of discretionary nature) and thus demand for luxury items (including gems and jewellery) is likely to be impacted at least in the medium-term

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. Mr. Fazalul have experience of more than three decades in jewellery business while Mr. Irfan has been in this business for around 8-10 years. The company operates under its family brand 'Mohammed Khan and Sons', and thus has been able to expand successfully. Mohammed Khan and Sons is perceived as a famous jeweller among the various organised/unorganised players in the market, with a good chunk of business coming in from repeat clientele.

Analytical Approach Followed – Standalone.

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

Company Background

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.

During FY16 (refers to the period April 1 to March 31), DJPL has reported a net loss of Rs.8.27 crore on a total operating income of Rs.101.50 crore as against a PAT of Rs.1.71 crore on a total operating income of Rs.121.94 crore in FY15.

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.

Rating History (Last three years): Please refer Annexure-2

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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 BB-; Stable

Annexure 2**Rating History for last three years:-**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Working Capital Limits	LT	29.00	CARE BB-; Stable	1)CARE BB (November 30, 2015)	1)CARE BB (December 05, 2014)	1)CARE BB (December 11, 2013)

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