Jodhani Brothers

February 23, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating action
Long-term Bank Facilities	12.00	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Reaffirmed
Total Facilities	**12.00 (Rupees twelve crore only)**		

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to Jodhani Brothers (JB) continue to derive strength from the extensive experience of the partners in the diamond processing industry, geographically diversified client base with presence in key gems and jewellery markets, consistent growth in operations, comfortable capital structure and debt coverage indicators.

However, the rating is constrained by partnership nature of the firm, lack of long-term rough diamond sourcing arrangements directly with diamond mining companies, working capital intensive nature of operations, moderate profitability margins and its susceptibility to volatility in the diamond prices, forex risk and prevailing intense competition from organised and unorganised players in the G&J industry.

The ability of the partnership firm to scale up its operations, improve its profitability margins, sustain its capital structure and operating cycle by effectively managing its working capital constitute the key rating sensitivities.

Detailed description of key rating drivers

Key rating strengths

Experienced partners

JB is a closely held partnership firm managed by Jodhani family. The current partners Mr. Hareshbhai Jodhani, Mr. Himmatbhai Jodhani, Mr. Jaysukhbai Jodhani and Mr. Vinodbhai Jodhani have more than two decades of experience in the gems and jewellery business. Over the years of their presence, they have established strong relations with the customers.

Presence across key G&J markets resulting into a geographically diversified revenue profile backed by established and broad clientele base

JB has its presence in the key Gems and Jewellery markets across the globe as it derives around 60% of its revenues from exports with major export destinations were USA, Hong Kong, and Israel. In FY16, the firm derived around 21% of overall revenues from USA, followed by Hong Kong 15%, Israel 14% etc. The clientele base of the firm is also well established and broad based as top 5 clients contribute around 27% of total sales in FY16 and 29% in H1FY17 respectively.

Consistent increase in the scale of operations

During FY16, JB has exhibited a consistent increase in revenues with its total operating income increasing by 73.68% CAGR (Compounded Annual Growth Rate) over the past three years i.e. (FY14 to FY16). Besides, the revenues of the firm have

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

increased by 24.10% to Rs.271.81 crore as compared to Rs.219.01 crore in FY15 on account of increase in sales volume largely from the domestic market. In H1FY17, the firm has achieved a total operating income of Rs.198.77 crore.

Comfortable capital structure and debt coverage indicators
JB's overall gearing improved from 0.95x as on March 31, 2015 to 0.60x as on March 31, 2016 and remained comfortable. The firm's interest coverage ratio has also improved and stood comfortable at 10.68x in FY16 (8.52x in FY15).

Key rating weaknesses

Partnership nature of the firm
JB is a partnership firm formed in 1998 and as on date is managed by four partners who are members of the same Jodhani family. The credit risk profile of JB is constrained by the constitution of the entity as there is an inherent risk of withdrawal of the capital in a partnership firm.

Marginal decline in profitability margin; albeit remains at moderate levels
JB's PBILDT margin decline from 3.92% in FY15 to 3.61% in FY16, on account of decrease in realisation coupled with increase in employee costs. Further, the PBILDT margin also declined as the firm has offered discounts for sale of its products in a sluggish G&J market. This strategy in a way has resulted in lower realisations for the period under review. Consequently, PAT margin though has deteriorated marginally from 2.10% in FY15 to 2.01% in FY16; yet it may be considered to remain at moderate levels.

Supplier concentration risk and lack of long-term rough diamond sourcing arrangement directly with diamond mining companies
The firm is not a DTC sight holder and does not have any sourcing arrangements with the diamond mining companies. It procures rough diamonds largely from the open market. Over the past two years (FY15 and FY16), JB's top five suppliers accounted for nearly 93% & 80% of the total purchases respectively; thereby indicating supplier concentration risk.

Working Capital intensive nature of operations
Being part of working capital intensive industry, JB's average monthly working capital related bank borrowing limits' utilization has remained higher at approximately 87% in the 12 months period ending December'16.

Margins susceptibility to volatility in diamond price
The profitability margins of the firm are susceptible to the volatile diamond prices as it procures rough diamonds from non – DTC sources and other suppliers from the open market which are further processed into CPD which takes some time owing to the manufacturing process involved coupled with the GIA certification process for higher carat size on selective basis thereby resulting into higher inventory holding period. Hence, the firm runs an inherent risk of volatility in roughs as well as CPD prices. Going forward, the ability of JB to efficiently manage the working capital cycle with minimal dependence on debt would be critical from credit perspective.

Exchange rate fluctuation risk
JB derived around 60% of its overall revenues in FY16 from the export markets and the remaining from within India. The firm imports rough from the open market, process them and then exports the same. As, JB does not hedge its foreign currency exposure as it enjoys natural hedge to an extent owing to exports compared to its imports. Nevertheless, JB's margins may be affected by the adverse foreign exchange fluctuations due to volatility of INR vs USD and timing difference associated with receipts and payments of foreign currency. During FY16, the firm has reported forex gain of Rs.1.62 crore.

Presence in a highly fragmented and competitive diamond processing and Jewellery industry
The diamond processing and Jewellery industry in India is highly fragmented with presence of numerous un-organised players apart from some very large integrated G&J manufacturers leading to high competitive intensity. The Indian diamond processing and diamond-studded Jewellery industry is working capital intensive and primarily export-oriented.

Analytical approach: Standalone basis

Applicable Criteria:
[Rating Methodology-Manufacturing Companies]
[Financials Ratio-Non Financial Sector]
[Criteria on Assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]

Background

Established in 1998, M/s. Jodhani Brothers (JB) is engaged in processing and exporting of cut and polished diamonds of size of 0.3 to 3 carats. JB has its processing plant located at Surat (Gujarat). JB is primarily an export oriented unit with exports accounting for 60% of total income in FY16 (refers to the period from April 1 to March 31) vis-a-vis 73% in FY15 catering to countries such as Hong Kong, Israel and USA. JB has been awarded star export house status in April 2014. Besides, the firm imports rough diamonds from Belgium and Israel.

During FY16, JB posted total income of Rs.271.81 crore (vis-a-vis Rs.219.01 crore in FY15) and earned PAT of Rs.5.46 crore (vis-a-vis Rs.4.59 crore in FY15). During H1FY17, the firm has posted total income of Rs.198.77 crore.

Status of non-cooperation with previous CRA: Not Applicable

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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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-EPC/PSC	-	-	-	3.60	CARE BBB-; Stable
Fund-based - LT-Post Shipment credit	-	-	-	8.40	CARE BBB-; 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 2016-2017	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-EPC/PSC	LT	3.60	CARE BBB-; Stable	-	1)CARE BBB- (11-Aug-15)	1)CARE BB+ (23-Dec-14) 2)CARE BB (09-Jul-14)	1)CARE BB (23-Aug-13)
2.	Fund-based - LT-Post Shipment credit	LT	8.40	CARE BBB-; Stable	-	1)CARE BBB- (11-Aug-15)	1)CARE BB+ (23-Dec-14) 2)CARE BB (09-Jul-14)	1)CARE BB (23-Aug-13)

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