



## Press Release

### Davanam Jewellers Pvt Ltd

September 24, 2020

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facility- Cash Credit	73.00	IVR BB- / Stable Outlook (IVR Double B Minus with stable outlook)	Assigned
	<b>Total</b>	<b>73.00</b>		

Details of Facilities are in Annexure I

#### Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Davanam Jewellers Pvt Ltd (DJPL) derives comfort from established market position, supported by promoter's extensive experience in retail jewellery industry and moderate capital structure with moderate debt protection metrics.

However, the rating strengths are constrained by decline in scale of operation, working capital intensive nature of business, exposure to stiff competition from organized and unorganized players, frequent regulatory changes both in India and overseas and volatility in gold prices and foreign exchange fluctuation risk.

#### Key Rating Sensitivities

##### Upward Rating Factors

- Improvement in the profit margins leading to improvement in gross cash accruals and liquidity of the company

##### Downward Rating Factors

- Deterioration in the scale of business
- Moderation in the capital structure with further deterioration in overall gearing
- Any adverse regulatory changes
- Elongation of working capital cycle



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### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths**

#### **Established market position, supported by promoters' extensive experience in retail jewellery industry**

DJPL is engaged in the business of retailing of gold, silver and diamond studded jewellery through its show rooms in Bangalore (Karnataka). It is engaged in this business since 1905, therefore the promoters of the company have over 10 decades of experience in the gold jewellery industry. The promoters have leveraged their experience in the industry and expanded DJPL's operations from 1 showroom in 1905 to 3 showrooms at present. The extensive experience of promoters has helped the company to establish its market position thereby resulting in healthy relations with customers and suppliers.

#### **Moderate capital structure with moderate debt protection metrics**

Company has minimal long-term debt and its debt profile mainly consists of working capital borrowings mainly Cash Credit availed from banks. Due to working capital borrowing requirements, the overall gearing stood moderate at 2.01x as on March 31, 2020 (2.09x as on March 31, 2019). Total indebtedness of the group as reflected by TOL/TNW remained satisfactory at 2.63x as on March 31, 2020.

### **Key Rating Weaknesses**

#### **Decline in scale of operation**

There was decline in scale of operation across all India in gems and Jewellery business. This happened due to regulatory changes, changes in tax structures, demonetization etc. This is further going to be impacted for FY21 due to COVID19 pandemic and successive lockdowns declared by government. Uncertainty in the market results in fluctuation in gold prices resulting in customer preferring not to buy Gold Jewellery. The company's total income has declined from Rs. 378.4 crores in FY18 to Rs. 326.2 crores in FY19 and further to Rs. 247.2 crores in FY2020 (provisional).

#### **Working capital intensive nature of business**



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Company being active in retail business of Gems and Jewellery, it requires to maintain sufficient stocks to attract retail buyers. Expectation of customer to provide different designs and uniqueness results in elongated time for workmanship and handmade finished products. This resulted in working capital cycle of the business increasing consistently from 128 days in FY18 to 205 days in FY2020 (provisional).

### **Exposed to stiff competition from organized and unorganized players**

The jewellery industry in India is highly fragmented with presence of numerous unorganised players, apart from some very large integrated gems and jewellery (G&J) industry leading to highly competitive intensity. The Group faces stiff competition from both organised as well as unorganised players. The competitive and fragmented nature of the industry impacts the Group's profit margins

### **Susceptible to regulatory changes both in India and overseas**

Gold and Diamond is an important commodity traded in the international market, so trading in gold and diamond jewellery is highly influenced by several government policies and regulations, which change from time to time. For example: the government has mandated jewellers to collect PAN card for all purchases beyond Rs.2 lakhs, Introduction of GST on gold purchase and gold making Hallmarking to be mandatory for gold jewellery from 2021. The government has also introduced the sovereign gold bond scheme to shift consumer preferences away from physical gold. Any sharp change in pricing or regulations could affect the company performance. Company inherent risk of raw material price regulation which are governed by external factors.

### **Exposed volatility in gold prices and foreign exchange fluctuation risk**

Any adverse fluctuation in gold prices and foreign exchange rates directly affects the company profitability. It is generally observed that retail buyers prefer to buy jewellery when gold prices are stable and not fluctuating. However, Gold prices are sensitive to international events that are beyond control. These frequent fluctuations result in lower volume of transactions

**Analytical Approach:** Standalone



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### Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### Liquidity – Stretched

DJPL has a stretched liquidity with average utilization of fund based limit of 100% during past 12 months. Further, the Gross Cash Accruals (GCA) has been modest at Rs. 3.85 crore in FY2020. Company had a free cash and bank balance of Rs. 5.80 crores as on 31st March 2020

### About the Company

Davanam Jewellers Private Limited is a reputed retail jewellery company located in Bengaluru. Company is managed by members of Davanam Family who are into this business since 1905. Company was established on 1st April 2005. Company is involved in the retail business of Gold, silver, platinum and diamond Jewellery. It has 3 stores in Bengaluru located at Avenue Road, Malleshwaram and Commercial Street junction. Company either procures gold jewellery from wholesale jewellers for standard designs or procures raw gold in bullion form from bullion traders to manufacture jewellery from artisans for customised and unique designs. Established set up of jewellery business for multiple generations has resulted in loyal customer base in Bengaluru City.

### Financials: Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	326.20	247.20
EBITDA	13.48	13.95
PAT	2.69	3.54
Total Debt	106.70	110.02
Tangible Net-worth	51.20	54.70
<b>Ratios</b>		
EBITDA Margin (%)	4.13	5.64
PAT Margin (%)	0.82	1.43
Overall Gearing Ratio (x)	2.09	2.01

\* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:



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Brickworks ratings in their press release dated March 23<sup>rd</sup>, 2020 has classified the case under issuer not cooperating status on account of non-submission of relevant information.

**Any other information: N.A.**

### Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility	Cash Credit	43.00	IVR BB- / Stable Outlook (IVR Double B Minus with stable outlook)	--	--	--
2.	Long Term Fund Based Facility	Cash Credit	30.00	IVR BB- / Stable Outlook (IVR Double B Minus with stable outlook)	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

### Name and Contact Details of the Rating Team:

Name: Abhijit Nadkarni

Name: Prakash Kabra

Tel: (022) 62396023

Tel: (022) 62396023

Email: [abhijit.nadkarni@infomerics.com](mailto:abhijit.nadkarni@infomerics.com)

Email: [prakash.kabra@infomerics.com](mailto:prakash.kabra@infomerics.com)

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based - Cash Credit	-	-	Revolving	43.00	IVR BB- / Stable Outlook
Long Term Fund Based - Cash Credit	-	-	Revolving	30.00	IVR BB- / Stable Outlook