



## Press Release

### Davanam Jewellers Private Limited (DJPL)

August 24, 2022

#### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	81.00 (Increased from 73.00)	IVR B+/ Stable (IVR Single B Plus with Stable Outlook)	Reaffirmed and Removed from ISSUER NOT COOPERATING	Simple
<b>Total</b>	<b>81.00</b> <b>(Rupees Eighty One Crore only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of the rating to the bank facilities of Davanam Jewellers Private Limited (DJPL) continues to factors in the promoter's extensive experience in retail jewellery industry, Reversal of declining revenue trend, DJPL's moderate capital structure with moderate debt protection metrics. The ratings are, however, constrained by the working capital intensive operations of the company, susceptibility to regulatory changes and exposed volatility in gold prices and foreign exchange fluctuation risk.

#### Key Rating Sensitivities

##### Upward Factor

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in liquidity position of the company

##### Downward Factor

- Any Moderation in scale of operation and/or moderation in profitability
- Moderation in the capital structure with further deterioration in overall gearing to over 3.00x.
- Elongation of operating cycle impacting the liquidity of the company



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### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### **Experienced promoters and established market position**

Davanam Jewellers Private Limited (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 one showroom in 1905 to four 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 supplier

##### **Reversal of declining revenue trend**

DJPL's total operating income improved from Rs.98.83 crore in FY21 to Rs.138.37 crore in FY22 after a continuous decline in three consecutive years ended FY21. Improvement witness due to upliftment of covid related restrictions and increase in demand of jewellery in retail market. Company has reported total operating income of Rs 41.71 crore in Q1FY23.

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

DJPL has minimal long-term debt and its debt profile mainly consists of working capital borrowings mainly cash credit and GECL loans availed from banks. Due to working capital borrowing requirements, the overall gearing on adjusted TNW stood moderate at 1.93x as on March 31, 2022. Company's TOL/TNW (Adjusted) remained satisfactory at 3.04x as on March 31, 2022.

#### **Key Rating Weaknesses**

##### **Working capital intensive operations**

The operations of the company are working capital intensive in nature on account of high inventory holding. DJPL's operating cycle increased from 203 days in FY20 to 586 days in FY21 mainly on account of elongation in the inventory holding period from 161 days in FY20 to 455 days in FY21. In FY22 average inventory period improved to 368 days from 455 days in FY21 due to which operating cycle improved from 586 days in FY21 to 459 days in FY22. The average utilization of the working capital limits stood at 99.56% for the 12 months ended May 2022.



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

This sector had seen heightened regulatory initiatives in the past. For instance, during fiscal 2014, to curb the import of gold, the government introduced 80:20 rule, discontinued gold on lease scheme and modified the gold deposit scheme. Subsequently, in fiscal 2015, the gold on loan scheme was re-started and 80:20 rule was scrapped. Further, since January 2016, the government has mandated jewellers to collect PAN card for all purchases beyond Rs.2 lakhs. The government has also introduced the sovereign gold bond scheme to shift consumer preferences away from physical gold

### **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

### **Applicable Criteria:**

[Criteria of assigning rating Outlook](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### **Liquidity- Stretched**

The liquidity position of the company is remained stretched due to high working capital intensive operations of the company. Average utilization of fund based working capital limits stood high at 99.56% for the twelve months ended May 2022. Operating cycle remained elongated to 459 days in FY22. Current ratio and quick ratio were remained at 1.62x and 0.46x respectively as on March 31, 2022.

### **About the Company**

Davanam Jewellers Private Limited (DJPL) is a retail jewellery company located in Bengaluru. DJPL is managed by Davanam Family who is into this business since 1905. DJPL was established on 1st April 2005 and involved in the retail business of gold, silver,



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platinum and diamond Jewellery. It has four stores in Bengaluru located at Avenue Road, Malleshwaram, Commercial street junction and Mantri Square and at M.G.Road (Regi.office).

### Financials (Standalone)

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Operating Income	98.83	138.37
EBITDA	11.69	12.92
PAT	0.68	1.17
Total Debt	120.41	124.37
Adj. Tangible Net Worth	61.52	64.48
<b>Ratios</b>		
EBITDA Margin (%)	11.82	9.34
PAT Margin (%)	0.69	0.85
Adj. Overall Gearing Ratio (x)	1.96	1.93

\*As per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (December 6, 2021)	Date(s) & Rating(s) assigned in 2020-21 (September 24, 2020)	Date(s) & Rating(s) assigned in 2019-20
1	Cash Credit	Long Term	57.00	IVR B+/Stable	IVR B+ (ISSUER NOT COOPERATING)	IVR BB-/Stable	-
2	Term Loan (GECL)	Long Term	24.00	IVR B+/Stable	-	-	-



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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan (GECL)	-	-	December 2027	15.00	IVR B+/ Stable



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Term Loan (UGECL)			September 2026	9.00	IVR B+/ Stable
Cash Credit	-	-	-	57.00	IVR B+/ Stable

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: [Facility wise lender details](#)**

<https://www.infomerics.com/admin/prfiles/Len-Davanam-Jewellers-aug22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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).