



Press Release

Golkunda Diamonds and Jewellery Limited

November 9, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	39.00	IVR BBB-/ Negative (IVR triple B minus with Negative outlook)	Rating reaffirmed with outlook revised to 'Negative' from 'Stable'	Simple
Short Term Bank Facility	0.50	IVR A3 (IVR A three)	Rating Reaffirmed	Simple
Total	39.50 (INR Thirty nine crore and fifty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Golkunda Diamonds and Jewellery Limited (GDJL) derives strength from established experience of promoters in the jewellery industry, conservative capital structure and comfortable coverage indicators. These rating strengths are partially offset due to significant decline in the profits of the company in H1FY24 vis-à-vis H1FY23, elongated working capital cycle, susceptibility of profitability to volatility in raw material prices, high exposure to forex risk, intense competition from the highly fragmented nature of the jewellery manufacturing industry and exposure to regulatory changes.

The revision in the long-term rating outlook from Stable to Negative considers the YoY decline in topline and profit of the company during H1FY24. Infomerics expects a decline in topline and profit in current fiscal vis-à-vis previous fiscal and its impact on the financial risk profile of the company will be a key monitorable going forward.



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Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and gross cash accrual on a sustained basis
- Improvement in working capital management with improvement in liquidity

Downward Factors

- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics on a sustained basis
- Any increase in debt levels leading to an increase in the gearing levels
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established experience of promoters in the jewellery industry**

The promoters of the company are Dadha Family of Mumbai have nearly three-decade-long experience in the diamond jewellery industry. The extensive experience coupled with long track record of operations has enabled the company to forge long term relations with customers and suppliers. Infomerics believes that the experience of the management in the industry is likely to favorably impact the business risk profile of the company over the near to medium term.

- **Conservative capital structure and comfortable coverage indicators**

As on March 31, 2023, total debt of the company stood at Rs. 40.18 crore and adjusted networth was Rs. 47.63 crore, compared with total debt of Rs. 40.99 crore and adjusted networth of Rs. 38.75 crore as on March 31, 2022. Adjusted networth as on March 31, 2023 consisted of unsecured loans from its group company to the tune of Rs. 2.20 crore. The decrease in total debt as on March 31, 2023, was due to decrease in term loan. The company's capital structure ratios look moderate with long term debt equity ratio (adjusted) of 0.08 times as on March 31, 2023, compared with 0.14 times as on March 31, 2022. Overall gearing ratio (adjusted) was moderate at 0.88 times as on March 31, 2023, compared with 1.01 time as on



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March 31, 2022. Long term debt /GCA was low at 0.65 years in FY23, compared with 0.92 years in FY22. The debt protection parameters were comfortable in FY23 with interest coverage ratio of 5.87x (6.87x in FY22), total debt to GCA of 4.49x (5.14x in FY22) and DSCR of 5.16x (6.76x in FY22).

Key Rating Weaknesses

- **Significant decline in topline and profit in H1FY24 vis-à-vis H1FY23**

In H1FY24, TOI declined to Rs. 99.66 crore in vis-à-vis TOI of Rs. 121.67 crore in H1FY23 due to decline in export sales to UAE and USA, driven by sluggish demand in these two nations. Consequently, EBITDA and the net profit declined to Rs. 4.72 crore and Rs. 2.06 crore respectively in H1 FY24 from Rs. 8.12 crore and Rs. 4.90 crore respectively in H1FY23. The extent of recovery in terms of the topline and profits over the next two quarters will be a rating sensitivity, going forward.

- **Elongated working capital cycle**

GDJL's working capital cycle elongated in FY23 compared with FY22, due to increase in collection days. The operations are working capital intensive in nature as reflected by Gross current asset days of ~138 days as on March 31, 2023, as against 129 days as on March 31, 2022 and 136 days as on March 31, 2021. The GCA days are driven by high debtor days and low creditors period. The debtor days stood at 89 days as on March 31, 2023, as against 71 days as on March 31, 2022. Since the company mostly makes payment on advance basis for its purchases it gets limited credit period from its suppliers. Thus creditors period was 25 days in FY23 compared with 21 days in FY22. The company's working capital intensity was 28% in FY23 which remained unchanged compared with FY22 level.

- **Susceptibility of profitability to volatility in raw material prices**

The company procures polished diamonds largely from the open market. Besides, the company procures gold from banks through gold metal loan and fixes the purchase price of gold on the date of selling gold which helps to mitigate risk of volatility in gold prices to an extent. Nevertheless, the profit margins for players in the G&J business remain susceptible to volatility in raw material prices.

- **High exposure to forex risk**



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The company derives its entire revenues from exports and imports accounted for 29% of purchases in FY23. Though the company majorly has receivables, any adverse fluctuation in foreign currency may adversely impact the company's profitability.

- **Intense competition from the highly fragmented market**

The gems and jewellery (G&J) industry in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated G&J manufacturers leading to a high level of competition. The export-oriented G&J industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry.

- **Susceptible to regulatory changes**

As the company is into 100% exports, changes in economies or government policies of the countries to which the company is exporting and India may affect the operations and thereby revenue generation of the company.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY24-FY25. Further, absence of any debt funded capex provides further comfort to the liquidity position.

About the company

Located out of Maharashtra, Golkunda Diamonds and Jewellery Limited is a BSE listed company, engaged in the manufacturing of diamond studded gold jewellery from India and exporting to customers across the world. The company is managed by Dadha & family having long experienced in the jewellery business. Out of its manufacturing facilities located in SEEPZ



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(Special Economic Zone) the company has the capacity to produce more than 500 pieces a day. Revenue of the company is entirely generated from international markets like UAE, Saudi Arabia, Qatar, Kuwait and USA.

Financials (Standalone):

	(Rs. Crore)			
For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Audited)	H1FY23 (Unaudited)	H1FY24 (Unaudited)
Total Operating Income	238.11	233.44	121.67	99.66
EBITDA	12.44	15.30	8.12	4.72
PAT	7.37	9.42	4.90	2.06
Total Debt	40.99	40.18	40.61	37.66
Tangible Net-worth (Book TNW)	36.96	45.43	40.72	46.42
Tangible Net-worth (adjusted)	38.73	47.63	40.72	46.42
EBITDA Margin (%)	5.22	6.55	6.68	4.74
PAT Margin (%)	3.09	4.03	4.02	2.07
Overall Gearing Ratio (x)	1.01	0.80	1.00	0.81

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: As per PR dated July 24, 2023, India Ratings continued to keep the ratings in the non-cooperating category due to non-cooperation from the client.

As per PR dated July 27, 2023, Brickwork Ratings continued to keep the ratings in the non-cooperating category due to non-cooperation from the client.

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					(Feb 13, 2023)	(Jan 11, 2023)		
1.	Export Packing Credit Limit/ Packing Credit in Foreign Currency Limit	Long term	15.00	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
2.	Post Shipment credit Limit/ Export Bill Rediscounting Limit	Long Term	20.00	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
3.	GECL	Long Term	4.00	IVR BBB-/ Negative	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
4.	Credit Exposure Limit	Short Term	0.50	IVR A3	IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt



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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
Export Packing Credit Limit/ Packing Credit in Foreign Currency Limit	-	-	-	15.00	IVR BBB-/ Negative
Post Shipment credit Limit/ Export Bill Rediscounting Limit	-	-	-	20.00	IVR BBB-/ Negative
GECL	-	-	FY25	4.00	IVR BBB-/ Negative



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Credit Exposure Limit	-	-	-	0.50	IVR A3
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Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details: As per attached annexure

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