



Press Release

Derewala Industries Limited

July 07, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	110.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	64.20	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	174.20	Rupees One Hundred Seventy Four Crore and Twenty Lakhs Only		

Details of Facilities are in Annexure 1

Detailed Rationale

Informetrics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR BBB with a Stable outlook and short-term rating of IVR A3+ for the bank loan facilities of Derewala Industries Limited (DIL).

The rating draws comfort from the established track record of operations and experienced management, diversified product portfolio and geographical presence, comfortable financial risk profile and scale of operations. However, these strengths are partially offset by working capital intensive nature of operations, intense competition in the industry and susceptibility of profitability to raw material price volatility.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes DIL's business risk profile will be maintained over the medium term. The company performance has improved in FY2023 (Provisional) as compared to FY2022. The industry outlook is also improving led by rapid digitisation of consumers and brands post-pandemic, increase in disposable income and a desire for luxury items as well as favourable demand for Indian made Jewellery in domestic as well as in global markets.

IVR has principally relied on the standalone audited financial results of DIL upto 31 March 2022, certified provisional of FY2023 and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the company's management.



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Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 510 crore and profitability margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing below 0.80x

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**

The company was initially setup in 1986 as a proprietorship concern and converted to company 2014 and has a successful track record of more than three decades in the existing line of business. Overall activities of Derewala Industries Limited are managed by four directors with Mr. Pramod Kumar Agarwal being the Chairman cum Director. He has experience of more than 3 decades in jewellery manufacturing business. He is ably supported by other directors namely, Mr. Yogendra Garg, Ms. Debra Ann Nishimura and Mr. Jugal Kishore Garg who has effective experience in existing line of business as well as supported by qualified and well experienced management team.

- **Diversified product portfolio and geographical presence:**

The company manufactures diversified gold, silver and fashion jewellery. Its silver jewellery portfolio includes rings, pendants, bracelets and beaded jewellery etc. and gold jewellery portfolio includes chains, mesh, stamped and gold flick products etc. It also manufactures necklace/ bracelet, interchangeable (charms) jewellery and bonded jewellery with less noble metal. The bonded jewellery are sold under the brand Milaan (Gold Bonded with Silver) & Metal Orafa (22Kt Gold Bonded with Brass) at an affordable price. They have a diversified geographical presence as their products are sold in PAN India and foreign countries like USA, Thailand, UK, Spain, Denmark, Germany, France, Canada and Australia.

- **Comfortable financial risk profile and scale of operations:**

During FY2023, TOI stood at to Rs. 429.30 crore as compared to Rs. 389.80 crore in FY2022. The operating profit and net profit margins improved to 10.04% and 4.98% respectively in FY2023 (Provisional) as compared to 7.24% and 2.83% respectively in FY2022, mainly due to increase in scale of operations. The tangible networth has



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improved to Rs. 129.81 crore in FY2023 (Provisional) from Rs. 108.30 crore in FY2022. Overall gearing remained comfortable at 1.03 x in FY2023 (Provisional).

Key Rating Weaknesses

- **Working capital intensive nature of operations:**

DIL's operations are working capital intensive in nature, supported largely by bank borrowings. The average utilisation of fund based working capital limits of the company stood high around ~93.5% during the last 12 months ending 30th April 2023. The company has large working capital requirements which are reflected in an elongated conversion cycle of 175 days in FY2023 Provisional (FY2022: 193 days). Inventory days though improved but remained moderately high at 152 days in FY2023 as compared to 176 days in FY2022.

- **Intense competition in the industry:**

DIL is present in the highly competitive & fragmented gems & jewellery industry with a number of small & medium-sized players engaged in the manufacturing of diamond & gold jewellery. Further, the increasing inflation and interest rates coupled with the overall economic and geopolitical uncertainty may lead to softer demand going ahead. The gems & jewellery industry in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated manufacturers leading to a high level of competition. The export-oriented gems & jewellery industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry. Also, the major risk associated with business is the ever-changing taste and preference of customers relating to the designs of jewellery.

- **Susceptibility of profitability to raw material price volatility:**

The company's profitability remains exposed to volatility in gold/silver prices, which is the primary raw material. However, the company's prices are fixed almost back-to-back for its sales and purchase legs, and hence they are protected largely against any fluctuation in increase in precious metals. Further, around 35% of company revenue is from exports, its profitability remains susceptible to forex fluctuations. As a result, the profitability margins of the company are susceptible to volatility in raw material prices.

Analytical Approach: For arriving at the ratings, IVR has analysed DIL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for Assigning Rating Outlook](#)



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Liquidity – Adequate

The company has an adequate liquidity position. There are no secured term loans borrowings from banks as on 31st March 2023. Against a NIL current portion of long-term debt (CPLTD), the company had a cash accrual of Rs. 27.06 crore in FY2023. The company projected to generate cash accruals of Rs. 22.22 crore in FY2024 against a NIL CPLTD. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Derewala Industries Limited (DIL) started the jewellery business in 1986 as a proprietorship concern under the leadership of Mr. Pramod Kumar Agarwal and was converted to company in 2014. The company is engaged in manufacturing of gold and silver jewellery with an installed capacity of 61,000 Kg. The company manufacturing unit is in Tonk Road, Jaipur, Rajasthan which is spread across 2,50,000 sq. ft.

Financials (Standalone):

For the year ended as on	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	389.80	429.30
EBITDA	28.23	43.10
PAT	11.10	21.52
Total Debt	143.23	133.09
Tangible Networth	108.30	129.81
EBITDA Margin (%)	7.24	10.04
PAT Margin (%)	2.83	4.98
Overall Gearing Ratio (x)	1.32	1.03

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr.	Type of	Current Ratings (Year 2023-24)	Rating History for the past 3 years
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No.	Instrument/Facility	Tenure	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
1.	Fund Based	Long Term	110.00	IVR BBB/Stable (Assigned)	-	-	-
2.	Fund Based	Short Term	64.20	IVR A3+ (Assigned)			

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About Infomerics:

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 instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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
Cash Credit	-	-	-	67.00	IVR BBB/Stable
WCDL	-	-	-	43.00	IVR BBB/Stable
EPC/PCFC/MTM	-	-	-	34.20	IVR A3+
FBP/FBD/PSFC	-	-	-	30.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Nil

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-derewala-jul23.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 [Complexity Level of Rated Instruments/Facilities](#).