

Press Release

D Gem Mount

December 06, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.9.50 crore bank facilities of D Gem Mount. The outlook is revised from '**Negative**' to '**Stable**'.

Reaffirmation of rating reflects stable profitability margins, healthy capital structure and improvement in the revenues though declined in the past; revision in the outlook reflects improvement in the business risk profile as reflected by growth in revenues, and moderate revenue visibility marked by current year performance. However, ratings are constrained by working capital intensive operations, modest revenues with high competition.

D Gem Mount (DGM) is a partnership firm established in the year 2007. It is engaged in manufacturing of gold and diamond studded jewellery. The manufacturing facility is located in Coimbatore, Tamil Nadu. The firm is managed by Mr. Visvanathan and Mr. K. Selvam.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of DGM to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters of the firm Mr. Visvanathan and Mr. K. Selvam possess more than two decades of experience in jewellery industry. Their experience in the industry helped the firm in maintaining established relationship with the suppliers and customers. The firm supplies to Viswa and Devji Diamonds, Bhima Jewellery, Abharan Jewellery Private Limited among others. The firm has more than 5 years of relationship with the above mentioned customers. Long vintage of relationship has supported in stable revenue profile at about Rs.50 crores, though it declined on exceptional basis in FY2017 due to demonetisation and other issues. The firm has reported revenues of about Rs.30 crores from April to October, 2018. Acuite believes that, the firm will benefit from the experienced management in the industry over the medium term.

• Comfortable financial risk profile

Financial risk profile of the company is comfortable marked by healthy gearing (Debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. Gearing is healthy at 0.61 times as on 31 March, 2018 (Provisional) against 0.55 times as on 31 March, 2017. TOL/TNW is comfortable at 1.17 times as on 31 March, 2018 (Provisional) as against 1.36 times as on 31 March, 2017. Though net worth is modest, it improved to Rs.10.15 crore as on 31 March, 2018 (Provisional), as against Rs.8.78 crore as on 31 March, 2017 due to accumulated profits. Of the total debt of Rs.6.15 crore as on 31 March, 2018, long term debt constitutes Rs.0.26 crore, unsecured loans of Rs.0.03 crore and short term debt of Rs.5.87 crore.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 5.04 times and 0.48 times respectively in FY2018. DGM's cash accruals are expected in the range of Rs.2.5-3.0 crores over the medium term which are adequate to service its minimal debt obligations of about Rs.0.08 crores. Acuite believes that the financial risk profile of the company is expected to be at similar levels over the medium term supported by moderate cash accruals and in the absence of major debt funded capital expenditure.

Weaknesses

• Moderate working capital cycle

Working capital cycle of the firm is moderate as reflected in moderate gross current assets (GCA) at 129 days in FY2018 (Provisional) as against 171 days in FY2017. This is mainly due to moderate inventory at 79 days in FY2018 as against 125 days in FY2017. Debtor realization is moderate at 50 days in FY2018 as against 45 days in FY2017. Upfront or immediate payment for purchase of gold / diamond and moderate inventory and receivable days lead to high utilisation at about 85 percent for the last six months through October 2018. Acuite believes that, the working capital cycle of the firm is expected to be moderate over the medium term.

• Modest scale of operations and Competitive and fragmented industry

Revenues of the company remained modest at about Rs.37 -54 crore for the last three years through FY2018. The gold and diamond jewellery industry is characterised by a large number of organised and unorganised players resulting in intense market competition. Further, profitability margins of DGM are susceptible to volatility in the prices of gold and diamond and the same is determined by market forces.

Outlook: Stable

Acuite believes that DGM will maintain a 'Stable' outlook over the medium term owing to its experienced management and established relationship with customers. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue while improving its profitability and maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	53.54	37.87	50.35
EBITDA	Rs. Cr.	3.71	2.82	3.36
PAT	Rs. Cr.	2.64	3.21	2.20
EBITDA Margin	(%)	6.93	7.46	6.66
PAT Margin	(%)	4.93	8.48	4.36
ROCE	(%)	22.55	26.98	39.63
Total Debt/Tangible Net Worth	Times	0.61	0.55	1.05
PBDIT/Interest	Times	5.04	5.07	3.17
Total Debt/PBDIT	Times	1.66	1.13	2.51
Gross Current Assets (Days)	Days	129	171	166

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Oct-2017	Cash Credit	Long Term	INR 9.50	ACUITE BB+ / Negative (Reaffirmed)
28-May-2016	Cash Credit	Long Term	INR 9.50	ACUITE BB+ / Stable (Reaffirmed)
09-Jul-2015	Cash Credit	Long Term	INR 9.50	ACUITE BB+ / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BB+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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