

Press Release

Dharneesh Gold Private Limited

14 February, 2018

Rating Upgraded



Total Bank Facilities Rated*	20.00 Cr.
Long Term Rating	SMERA B+/Stable (Upgraded from SMERA D)
Short Term Rating	SMERA A4 (Upgraded from SMERA D)

**Refer annexure for details*

SMERA has upgraded the long term and the short term rating on the Rs.20.00 crore bank facilities of Dharneesh Gold Private Limited (DGPL) to '**SMERA B+**' (read as **SMERA B plus**) and '**SMERA A4**' (read as **SMERA A Four**) respectively from '**SMERA D**'. The outlook is '**Stable**'.

The upgrade is in view of the default being cured by the company. There exists no overdrawing in the working capital borrowing for the last six months ended September 2017.

About the Group

The Bhagya Laxmi Group was established in 1910 as a proprietorship concern by Mr. Agarwal and family and subsequently converted to a private limited company in 2010. The group is engaged in the manufacturing and wholesale trading of gold jewellery at Andhra Pradesh with installed capacity of 120 kg of gold per month.

Strengths

Curing of default

The group has cured the default and debt servicing is on time. No instance of overdrawing in the working capital borrowing has been observed for the last six months ended September 2017.

Established track record of operations and experienced management

The group has long track record of operations since it was established in 1910. The Directors, Mr. Kunal Gupta and Ms. Shilpa Agarwal have more than a decade of experience in the jewellery business.

Moderate financial risk profile

The financial risk profile has remained moderate marked by net worth of Rs. 9.33 crore as on 31 March, 2017 (Provisional) as against Rs. 6.81 crore as on 31 March, 2016. The gearing improved to 1.27 times as on 31 March, 2017 (Provisional) as against 2.41 times as on 31 March, 2016. The total debt outstanding as on 31 March, 2017 of Rs. 11.84 crore comprises Rs.1.91 crore of unsecured loans from Directors and Rs. 9.93 crore as working capital limit. The Interest coverage ratio is comfortable at 1.51 times in FY2017 (Provisional) as against 1.83 times in FY2016. The DSCR stood at 1.19 times in FY2017 (Provisional) as against 1.58 times in FY2016.

The net cash accruals deteriorated during the period under study. The net cash accruals stood at Rs. 0.75 crore in FY2017 (Provisional) as against Rs. 1.05 crore in FY2016. However, the group has no long term debt obligation.

Comfortable working capital cycle

The group has efficient working capital cycle of 9 days in FY2017 (Provisional) as against 6 days in FY2016. The GCA days are also comfortable at 23 days in FY2017 (Provisional) as against 11 days in FY2016. This is on account of low inventory holding period of 13 days in FY2017 (Provisional) as against 5 days in FY2016. The debtor days also stood low at 9 days in FY2017 (Provisional) as against 6 days in FY2016. However, the bank limit utilisation stood at 95 per cent for the last six months ended August, 2017.

Weaknesses

Declining revenue trend

The group has shown declining revenue trend during the period under study. The revenue stood at Rs. 1017.79 crore in FY2016 as against Rs. 1574.83 crore in FY2015. Further, as per provisional financials provided by the management, the revenue fell to Rs. 587.81 crore in FY2017. This was majorly on account of demonetisation when the company was closed for almost five months in FY2016.

Thin profitability margins

The profitability margins of the group have shown an increasing trend during the period under study. The EBITDA margins stood at 0.52 per cent in FY2017 (Provisional) as against 0.25 per cent in FY2016 and 0.19 per cent in FY2015. This is majorly on account of the trading nature of business as 70 per cent of the revenue is generated from trading activity.

The PAT margins also stood low at 0.12 per cent in FY2017 (Provisional) as against 0.10 per cent in FY2016 and 0.10 percent in FY2015.

Susceptibility of profit margins to volatility in gold prices

The profitability is exposed to fluctuations in gold prices. Further, any adverse changes in the prices of gold may impact the profitability margins of the company.

Analytical Approach:

SMERA has consolidated the business and financial risk profiles of Bhagya Laxmi Gems and Jewellers Private limited (BGJPL) and Dharneesh Gold Private Limited (DGPL), together referred to as the Bhagya Laxmi Group. The consolidation is due to the common management and operational and financial synergies within the group.

Outlook – Stable

SMERA believes that the group will maintain a stable outlook and continue to benefit over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profit margins or deterioration in the capital structure on account of higher-than-expected working capital requirements.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	587.81	1,017.79	1,574.83
EBITDA	Rs. Cr.	3.04	2.59	3.06
PAT	Rs. Cr.	0.73	1.01	1.58
EBITDA Margin	(%)	0.52	0.25	0.19
PAT Margin	(%)	0.12	0.10	0.10
ROCE	(%)	14.13	13.63	20.36
Total Debt/Tangible Net Worth	Times	1.27	2.41	3.13
PBDIT/Interest	Times	1.51	1.83	2.41
Total Debt/PBDIT	Times	1.19	1.58	2.12
Gross Current Assets (Days)	Days	25.00	12.00	7.00

About the rated entities:

BGJPL and DGPL are engaged in the manufacturing and wholesale trading of gold jewellery at Andhra Pradesh. The offices of BG are located at Mumbai, Chennai and Andhra Pradesh while Dharneesh Gold Private Limited (incorporated in 1910) is located at Hyderabad.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation of Companies - <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
25-Nov, 2016	Gold Metal loan	Long Term	4.95*	SMERA D (Downgraded from SMERA BB+/Stable)
	Proposed Bank Guarantee	Short Term	15.05	SMERA D (Downgraded from SMERA A4+)
27-July, 2015	Gold Metal loan	Long Term	4.95*	SMERA BB+ / Stable (Assigned)
	Proposed Bank Guarantee	Short Term	15.05	SMERA A4+ (Assigned)

*Sub limit is cash credit to the extent of Rs.4.95 crore.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Gold Metal loan	Not Applicable	Not Applicable	Not Applicable	4.95*	SMERA B+/Stable (Upgraded from SMERA D)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.05	SMERA A4 (Upgraded from SMERA D)

*Sub limit is cash credit to the extent of Rs.4.95 crore.

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ABOUT SMERA

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