RATING RATIONALE

02 June 2020

D Gem Mount

Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of Rs.5.00 Crs. of D Gem Mount

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2014)	Present
Fund based	6.94	5.00	Long Term	BWR BB (Stable)	BWR BB- (Stable) Downgrade
Total	6.94	5.00	INR Five Crores only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION/OUTLOOK:

The downgrade revision in the rating of D Gem Mount is on account of deterioration in revenue for two years, susceptibility of raw materials to price fluctuations and considering the current economic situation due to the Covid-19 pandemic. However, the rating derives comfort from the partner's experience, established track record and moderate financial risk profile.

BWR believes the D Gem Mount business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

BWR has essentially relied upon the audited financial statements of FY17, FY18 and FY19 of D Gem Mount, publicly available information and information/clarifications provided by the management.

Credit Strengths:

- **Experienced promoters with established track record:**

  The partners of D Gem Mount, Mr. G Viswanathan and Mr. K Selvam have experience in the business of more than a decade and the operational track record of the firm of around 13 years in the industry. This has benefitted the firm with a long standing relationship with its suppliers and customers.

- **Moderate Financial Risk Profile:**

  The firm has a moderate scale of operations. For the year FY19, the firm made a turnover of Rs.48.60 Crs. The net worth of the firm stood at Rs.11.33 Crs and the gearing levels were less than one for the last three years. The debt protection metrics of the firm are comfortable with DSCR and ISCR at 5.15 times and 5.46 times.

Credit Risks:

- **Declining revenue:**

Currently the firm is making revenue of Rs.48.06 Crs in FY19. It has declined by 10% when compared to FY18 sales of Rs.53.55 Crs. Also the firm has achieved sales of Rs.43.72 Cr as on March 2020, on a provisional basis for the financial year 2019-20, which in turn is 9% lower than the sales of FY19. The firm may also have an effect due to the impact of Covid-19 on the economy.

- **Inherent risk being a partnership firm:**

Inherent risk in a partnership firm refers to the risk of withdrawal of capital by the partners which may adversely affect the capital structure.

- **Vulnerability of margins to volatility in raw material prices:**

The cost of raw materials contributes to around 95% of the overall operating expenses. Also the cost of primary raw materials of the firm viz., gold and diamond are highly susceptible to price

fluctuations. Any adverse volatility in raw material prices could impact revenue and profitability.

- **Customer Concentration Risk:**

There is customer concentration risk involved as around 60% of the turnover comes from a single customer.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria furnished below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the concern to achieve projected revenue & profitability margins and manage liquidity would be the key rating sensitivities.

Positive: The rating would be upgraded if the firm improves its scale of operations and profitability margins.

Negative: The rating would be downgraded if there is further deterioration in the revenue, liquidity position and capital structure.

LIQUIDITY INDICATORS

Moderate

The liquidity position of the firm seems to be moderate reflected by the current ratio of 1.65 times in FY19. Also, the cash credit limit was under-utilized for the last four months. The DSCR and ISCR of the concern are at comfortable levels. However the conversion cycle of the firm has increased from 76 days in FY18 to 111 days in FY19 due to the increased inventory holding period.

COMPANY PROFILE

D Gem Mount, established in June 2007 as a partnership firm by Mr.G.Visvanathan and Mr.K. Selvam at Coimbatore, Tamil Nadu. It is mainly engaged in diamond cutting, jewellery manufacturing and wholesale of diamond jewellery, studded gold jewellery. The firm manufactures jewellery to retail jewelers in the country. In addition to manufacture of jewellery, D Gem Mount is also engaged in purchase & sale of jewellery studded with other precious and natural stones. The firm has an in-house jewel designing department that designs traditional as well as latest trendy designs.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019	2018
Result Type		**Audited**	**Audited**
Operating Revenue	Crores	48.06	53.55
OPBDIT	Crores	3.66	4.19
PAT	Crores	2.64	3.85
Tangible Net worth	Crores	11.33	10.15
Total Debt/Tangible Net worth	Times	0.81	0.61
Current Ratio	Times	1.65	1.71

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY: ACUITE BB (Stable) Issuer not cooperating as on 13th Feb 2020

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facility	Current Rating (2020)			Rating History		
	Type	Amount (₹ Crs)	Rating	2019	2018	Nov, 2017
Fund Based	Long Term	5.00	BWR BB- (Stable) Downgrade	-	-	-
Total		**5.00**	**₹ Five Crores only**			

Note: Initial rating of BWR BB (Stable) was assigned on 29th Sep 2014.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **Approach to Financial Ratios**

- General Criteria

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D Gem Mount

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl.No.	Name of the Bank	Type of Facilities	Long Term [₹ Cr]	Short Term [₹ Cr]	Total [₹ Cr]
1.	State Bank of India	Cash Credit	5.00	-	5.00
Total					5.00

Total Rupees Five Crores only.

For print and digital media

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presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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