

## Press Release

### Sovereign Diamonds Limited

October 30, 2018

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 21.00 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB /Stable)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 21.00 crore bank facilities of Sovereign Diamonds Limited (SDL). The outlook is '**Stable**'.

SDL, incorporated in 1974, is a Mumbai-based company promoted by Mr. Ajay Gehani and Mr. Ramesh Gehani. The company undertakes manufacturing of diamond-studded gold jewellery at Andheri (Mumbai).

Rating downgrade reflects deteriorating business risk profile and more-than-expected stretch in its working capital management. Revenues have been consistently declining from Rs.53.21 crores in FY2016 to Rs.37.02 crores in FY2018, though the same is partly mitigated by improving operating margins; further, the working capital cycle is also stretched with gross current assets (GCA) days increased from 212 days in FY2017 to 263 in FY2018. Declining revenues and increasing inventory levels have caused in high bank line utilisation. However, the ratings are supported by experienced management, and moderate financial risk profile of the company.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SDL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Experienced management**

SDL was incorporated in 1974. SDL is listed on the Bombay Stock Exchange (BSE). The company undertakes manufacturing of diamond-studded 18 carat gold jewellery. SDL has a processing unit in Mumbai. It benefits from its experienced management. Mr. Ajay Gehani, Managing Director of the company, has around 25 years of experience in the gems and jewellery industry. Mr. Ajay Gehani has done graduation in Gemology from the Gemological Institute of America, Santa Monica-USA in 1984.

- **Improvement in operating profit margins**

SDL's operating margins improved to 9.20 percent in FY2018 from 8.74 percent in FY2017. This is mainly on account of reducing staff strength from 100 to 75 during demonetisation and improvement in operations.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth, debt protection measures and gearing. The net worth of the company is moderate at Rs.13.97 crore as on 31 March, 2018 as against Rs.13.13 crore as on 31 March, 2017. The gearing of the company has stood moderate at 1.01 times as on March 31, 2018 as against 1.07 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.08 times as on 31 March, 2018 as against 1.22 times as on 31 March, 2017. Interest Coverage Ratio (ICR) declined to 1.86 times in FY2018 from 2.04 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 as against 0.11 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.64 times in FY2018 as against 1.71 times in FY2017. Acuité believes that the financial risk profile of SDL will continue to remain moderate over the medium term on account of its declining scale of operations.

## Weaknesses

### • Declining revenue trend

SDL has registered revenues of Rs.37.02 crore in FY2018 as against Rs.45.20 crore in FY2017. The revenues have declined to 15.04 percent over the previous year. Since the company caters to retailers such as TBZ and Malabar, the business was impacted due to demonetisation leading to fall in revenues. It has achieved Rs.9.05 crore in Q1FY2019. Further, the company has orders in hand of around Rs.8 to 10.00 crore which has to be executed in the next 3 to 4 months.

### • Operations remained working capital intensive

SDL has comfortable working capital operations marked by Gross Current Assets (GCA) of 263 days in FY2018 as against 212 days in FY2017. The inventory and debtors levels stood at 226 and 53 days in FY2018 as against 157 and 57 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~70 to 80 percent in the last six months. Acuite believes that the working capital requirements may improve over the medium term on account of expected stability in the diamond industry.

### • Customer concentration continued with reputed customer base

SDL is also exposed to high customer concentration risk as the company derives ~75 percent of its revenue from Tribhovandas Bhimji Zaveri (TBZ) and Malabar Gold & Diamonds. However, the company has added 2 new customers this year which will help to reduce dependence on few large customers.

## Outlook: Stable

Acuite believes SDL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers sustained improvement in revenues, profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	37.02	45.20	53.21
EBITDA	Rs. Cr.	3.41	3.94	4.33
PAT	Rs. Cr.	0.79	1.03	1.21
EBITDA Margin	(%)	9.20	8.73	8.13
PAT Margin	(%)	2.13	2.27	2.28
ROCE	(%)	10.49	12.61	28.48
Total Debt/Tangible Net Worth	Times	1.01	1.07	1.27
PBDIT/Interest	Times	1.86	2.04	2.12
Total Debt/PBDIT	Times	4.15	3.57	3.53
Gross Current Assets (Days)	Days	263	212	219

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

None

## Any other information

Not Applicable

## 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
09-Aug-2017	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Reaffirmed)
	Packing Credit	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BB / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	3.35	ACUITE BB / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	0.50	ACUITE BB / Stable (Reaffirmed)
13-May-2016	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Reaffirmed)
	Packing Credit	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE BB / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	3.35	ACUITE BB / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	0.50	ACUITE BB / Stable (Reaffirmed)
20-Mar-2015	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Assigned)
	Packing Credit	Long Term	2.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	0.15	ACUITE BB / Stable (Assigned)
	Proposed Cash Credit	Long Term	3.35	ACUITE BB / Stable (Assigned)
	Proposed Packing Credit	Long Term	0.50	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	14.50	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Packing Credit	Not Applicable	Not Applicable	1-Jan-1953	2.00	ACUITE BB- / Stable (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB- / Stable (Withdrawn)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.35	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.65	ACUITE BB- / Stable (Assigned)

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### About Acuite Ratings & Research:

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