

Press Release

31 January, 2018

Asha Diamond



Rating Upgraded

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB/Stable)

**Refer annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs. 40.00 crore bank facilities of Asha Diamond to '**SMERA BBB-**'(read as **SMERA triple B minus**) from '**SMERA BB**' (read as **SMERA double B**). The outlook is '**Stable**'.

The upgrade is in view of the significant improvement in revenue and profitability margins of the firm. SMERA believes that the firm will sustain its existing business profile owing to the established position of Asha Diamond and extensive experience of the promoters.

Asha Diamond, a proprietorship firm, was established in 2009 by Mr. Chandresh Gandhi and converted to a partnership firm in 2012. The firm, led by Mr. Pragnesh Patel and Mr. Sanket Gandhi is engaged in the processing of diamonds in the range of 5 carat to 20 carat at Surat, Gujarat. The firm caters to Hongkong, USA, UAE, Israel and Belgium. Exports account for ~91 per cent of the firm's total sales.

Key Rating Drivers

Strengths

Experienced promoters

Mr Gandhi and family have been in the diamond business for more than four decades. The partners have extensive experience as also have developed healthy relations with customers.

SMERA believes that the business risk profile of the firm will be substantially strengthened on the back of established customer relations and experience of the promoters.

Significant growth in revenues

The revenues have registered a compounded annual growth rate of around 18 per cent from FY2015 (refers to financial year, April 1 to March 31) to FY2017. The revenue stood at Rs. 207.67 crore in FY2017, compared to Rs.185.93 crore in FY2016. Further, the firm booked revenue of Rs.211 crore from April to December, 2017 because of increase in sale of large diamonds of 5 – 20 carats.

Improvement in profitability margins

The profitability margins of Asha Diamond improved Y-O-Y. The EBITDA margin stood at 4.45 per cent in FY2017 as against 3.37 per cent in FY2016. The PAT margin stood at 1.88 per cent in FY2017 as against 1.76 per cent in FY2016 owing to increase in sale of large carat diamonds i.e 5 – 20 carats. This enabled the firm to gain good margins.

Moderate financial risk profile

The financial risk profile is moderate marked by healthy net worth of Rs.44.95 crore as on 31 March, 2017 as against Rs.29.00 crore as on 31 March, 2016. The gearing stood at 0.67 times as on 31 March, 2017 as against 1.45 times as on 31 March, 2016. The total debt of Rs. 30.14 crore outstanding as on 31 March, 2017 is working capital borrowing from the bank. The Interest Coverage ratio stood at 3.01 times in FY2017 as against 5.26 times in FY2016.

The Net Cash Accruals stood at Rs.4.14 crore in FY2017 as against Rs.3.39 crore in FY2016. The NCA/TD ratio stood at 0.14 times in FY2017 as against 0.08 times in FY2016.

Weaknesses

Working-capital intensive operations

The liquidity of the firm registered improvement reflected in the GCA days of 194 in FY2017 as against 273 days in FY2016. This is mainly on account of improvement in receivable days to 24 in FY2017 from 40 days in FY2016. Also, the inventory holding period improved to 168 days in FY2017 from 190 days in FY2016. The firm gets extended credit period from suppliers of ~100 days which moderates the working capital limit utilisation. The average bank limit utilisation stood at 85 percent for the last six months ended November 2017.

Susceptibility of profitability margins to volatility in diamond prices, fluctuations in foreign exchange (forex) rates.

The firm imports rough diamonds and exports finished diamonds resulting in a natural hedge to a certain extent. However, a substantial time gap between imports and realisation of foreign currency (mainly USD) denominated payment exposes the firm to high foreign exchange fluctuation risk.

Stiff competition from large players

The gems and jewellery industry is characterised by the presence of a large number of organised and unorganised players resulting in pressure on margins.

Outlook: Stable

SMERA believes that Asha Diamond will maintain a stable outlook over the medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm registers improvement in profit margins while maintaining healthy revenue growth and improvement in the working capital management. Conversely, the outlook

may be revised to 'Negative' in case of significant deterioration in profitability or if the firm reports high forex losses. The outlook may also be affected by major deterioration in the capital structure on account of higher-than-expected debt-funded working capital requirements.

About the rated entity - key financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	207.74	185.93	128.30
EBITDA	Rs. Cr.	9.24	6.26	2.43
PAT	Rs. Cr.	3.90	3.28	1.43
EBITDA Margin (%)	(%)	4.45	3.37	1.89
PAT Margin (%)	(%)	1.88	1.76	1.12
ROCE (%)	(%)	12.37	12.66	18.03
Total Debt/Tangible Net Worth	Times	0.67	1.45	0.00
PBDIT/Interest	Times	3.01	5.26	12.58
Total Debt/PBDIT	Times	3.24	6.73	-
Gross Current Assets (Days)	Days	194	244	249

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

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21-Apr, 2017	Packing credit	Long Term	20.00	SMERA BB Issuer not co-operating*
	Proposed Packing credit	Long Term	20.00	SMERA BB Issuer not co-operating*
21-Jan, 2016	Packing credit	Long Term	20.00	SMERA BB / Stable (Assigned)
	Proposed Packing credit	Long Term	20.00	SMERA BB / Stable (Assigned)

*The issuer did not co-operate; Based on best available information.

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Packing credit	Not Applicable	Not Applicable	Not Applicable	40.00 (Revised from Rs. 20.00 Cr)	SMERA BBB-/Stable (Upgraded from SMERA BB/Stable)

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ABOUT SMERA

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