

Press Release

February 14, 2018



Asha Diamond

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 60.00 Cr. (Enhanced from Rs. 40.00 Cr)
Long Term Rating	SMERA BBB-/Stable

**Refer annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) on the Rs. 40.00 crore bank facilities Asha Diamond. Further SMERA has assigned long term rating of SMERA BBB-/Stable on the Rs. 20.00 crore bank facilities Asha Diamond. The outlook is '**Stable**'.

The upgrade is in view of significant improvement in revenues and profitability margins of the firm. SMERA believes the firm will sustain the existing business profile on the back of established market position of Asha Diamond and experienced promoters in the diamond industry.

Asha Diamond was set up as a proprietorship firm in 2009 by Mr. Chandresh Gandhi. In 2012 it was converted into a partnership firm currently the partners are Mr. Pragnesh Patel and Mr. Sanket Gandhi. The firm is engaged in processing of large carat diamonds in the range of 5 carat to 20 carat and has its processing unit at Surat, Gujarat. The firm caters to countries such as Hongkong, USA, UAE, Israel and Belgium. Exports account for ~91 per cent of the firm's total sales.

Key Rating Drivers

Strengths

Promoters' extensive industry experience

The Gandhi family is into diamond business for more than four decades. The partners of the firm have developed healthy relationship with its customers and have extensive experience in the diamond industry.

SMERA believes the business risk profile of the firm will be substantially strengthened on the back of established customer relationship and experienced promoters.

Significant growth in revenues

The revenues of the firm have registered a compound annual growth rate of around 18 per cent from FY2015 (refers to financial year, April 1 to March 31) to FY2017. The revenues stood at Rs.

207.67 crores in FY2017, as compared to Rs. 185.93 crore in FY2016. Further the company has booked revenue of Rs. 211 crores for the period April to December, 2017. The reason for growth in revenues is because of increase in sale of large carat diamonds i.e 5 – 20 carats.

Improvement in profitability margins

The profitability margins of Asha Diamond have 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. The reason for improvement in margins is because of increase in sale of large carat diamonds i.e 5 – 20 carats which has enabled the firm to gain good margins.

Moderate financial risk profile

The financial risk profile of the firm is moderate marked by healthy net worth of Rs. 44.95 crores as on 31 March 2017 as against Rs.29.00 crores 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 crores 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 crores in FY2017 as against Rs. 3.39 crores in FY2016. The NCA/TD ratio stood at 0.14 times in FY2017 as against 0.08 times in FY2016.

Weaknesses

Working-capital intensive nature of operations

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

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

Asha Diamond imports rough diamonds and exports finished diamonds which translates into a natural hedge to a certain extent in terms of forex risk. However, a substantial time gap between imports and realisation of foreign currency (mainly USD) denominated payment exposes the company to high foreign exchange fluctuation risk.

Strong competition from large number of players in the organized and unorganized sector

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 company registers improvement in profit margins while maintaining healthy revenue growth improvement in the working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability, or if the company 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
31-Jan-2018	Packing credit	Long Term	40.00 (Revised from Rs. 20.00 Cr.)	SMERA BBB-/Stable (Upgraded from SMERA BB/Stable)
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	SMERA BBB-/Stable (Reaffirmed)
Proposed Packing credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB-/Stable (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Rating Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Namita Palve, Rating Analyst, Tel: +91-22-6714 1129 Email: namita.palve@smera.in	

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