

Press Release

Asha Diamond

October 31, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 60.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.60.00 crore bank facilities of Asha Diamond. The outlook is '**Stable**'.

Asha Diamond was set up as a proprietorship firm in 2009 by Mr. Chandresh Gandhi. In 2012, it was converted into a partnership firm and the current 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 Hong Kong, USA, UAE, Israel and Belgium. Exports account for ~91 percent of the firm's total sales.

Analytical Approach

Acuité has considered standalone business and financial risk profile of Asha Diamond to arrive at the rating.

Key Rating Drivers

Strengths

- Promoter's extensive industry experience**

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

Acuité believes that the business risk profile of the firm will be substantially strengthened on the back of established customer relationships and experienced promoters.

- Moderate scale of operations with moderate profitability**

Asha Diamond has shown continuous growth in revenues during the period FY2016 to FY2018 under the study. The revenues stood at Rs.275.14 crore in FY2018 as against Rs.207.74 crore in FY2017 and Rs.185.93 crore in FY2016. Further, the company has booked revenue of Rs.132.18 crore for the period April to September, 2018. The profitability margins of Asha Diamond have improved Y-O-Y. The EBITDA margin stood at 4.69 percent in FY2018 as against 4.45 percent in FY2017. The PAT margin stood at 1.98 percent in FY2018 as against 1.88 percent in FY2017 as against 1.76 percent in FY2016. The reason for improvement in margins is because of increase in the sale of large carat diamonds i.e 1-15 carats which has enabled the firm to gain good margins.

- Moderate financial risk profile**

The financial risk profile of the firm has remained moderate marked by tangible net worth of Rs.61.37 crore as on 31 March, 2018 (PY: Rs. 44.95 crore). The tangible net worth as on 31 March, 2018 includes unsecured loan of Rs.28.78 crore considered as quasi equity (PY: Rs.15.48 crore). The gearing (debt-equity) ratio stood moderate at 0.53 times as on 31 March, 2018 (PY: 0.67 times). The total debt of Rs.32.73 crore outstanding as on 31 March, 2018 is majorly short term working capital borrowing from the bank and Rs.0.21 crore as a vehicle loan.

Interest Coverage Ratio (ICR) stood at 4.94 times in FY2018 (PY: 3.01 times). The ICR has improved on account of increase in EBITDA levels in FY2018 over FY2017 and also reduction in usage of working capital borrowings from the bank in FY2018 over FY2017. Total outside liabilities to tangible net worth (TOL/TNW) ratio is comfortable at 1.71 times as on 31 March, 2018 (PY: 1.48 times). The net cash accruals of the firm have improved to Rs.7.41 crore in FY2018 (PY: Rs. 4.14 crores). The

improvement in net cash accruals is on account of significant increase in the level of profits coupled with improvement in operating income and reduction in debt levels in FY2018 over FY2017.

Acuite believes that the firm will maintain the financial risk profile on the back of healthy generation of net cash accruals, continuous infusion of the funds in the form of unsecured loans by the promoters and expected growth in profitability over the near to medium term.

Weaknesses

• Working capital intensity

The operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 201 days in FY2018 (PY: 194 days). The GCA days are majorly dominated by high inventory holding period which is inherent in the gems and jewellery industry. The inventory holding period stood at 156 days in FY2018 (PY: 168 days). The receivable days are increased to 41 days in FY2018 (PY: 24 days). This is majorly on account of increase in scale of operations. Further, the working capital cycle is supported by stretched suppliers which moderates the working capital requirement of the firm and is reflected in reduction in interest cost in FY2018 over FY2017. The average bank limit utilisation stood at 81.00 percent for the last six months ended August, 2018.

• Susceptibility of its profitability margins to volatility in diamond prices and fluctuations in 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 firm to high foreign exchange fluctuation risk.

• Strong competition from large number of players in the organised and unorganised 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

Acuite 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	275.14	207.74	185.93
EBITDA	Rs. Cr.	12.89	9.24	6.26
PAT	Rs. Cr.	5.46	3.90	3.28
EBITDA Margin	(%)	4.69	4.45	3.37
PAT Margin	(%)	1.98	1.88	1.76
ROCE	(%)	12.95	12.37	17.31
Total Debt/Tangible Net Worth	Times	0.53	0.67	1.45
PBDIT/Interest	Times	4.94	3.01	5.26
Total Debt/PBDIT	Times	2.54	3.24	6.73
Gross Current Assets (Days)	Days	201	194	244

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
14-Feb-2018	Packing Credit	Long Term	40.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	20.00	ACUITE BBB- / Stable (Assigned)
31-Jan-2018	Packing Credit	Long Term	40.00 (Revised from Rs.20.00 Cr)	ACUITE BBB- / Stable (Upgraded from ACUITE BB/Stable)
21-Apr-2017	Packing Credit	Long Term	20.00	ACUITE BB (Indicative)
	Proposed Packing Credit	Long Term	20.00	ACUITE BB (Indicative)
21-Jan-2016	Packing Credit	Long Term	20.00*	ACUITE BB / Stable (Assigned)
	Proposed Packing Credit	Long Term	20.00	ACUITE BB / Stable (Assigned)

*FOBP/FABC/FOBNLC as sublimit to the extent on Rs. 20.00 crore.

*FOUBP/FOUBNLC as sublimit to the extent of Rs. 10.00 crore

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE BBB- / Stable (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- / Stable (Reaffirmed)

*FOBP/FABC/FOBNLC as sublimit to the extent on Rs. 20.00 crore.

*FOUBP/FOUBNLC as sublimit to the extent of Rs. 10.00 crore

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