

Press Release

Asha Diamond

October 25, 2019

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**) on the Rs. 60.00 crore bank facilities of Asha Diamond (AD). The outlook is '**Stable**'.

Asha Diamond based of Mumbai 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 15 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 ~86.00 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

- **Extensive promoters experience in the industry**

The firm has established presence in diamond industry since 2009, is well supported by extensive experience of the partner's. 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 suppliers 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**

AD has shown continuous growth in revenues during the period FY2017 to FY2019 under the study. The revenues stood improved at Rs. 279.90 crore in FY2019 as against Rs.275.14 crore in FY2018 and Rs.207.74 crore in FY2017. Further, the company has booked revenue of Rs.147.57 crore for the period April to September, 2019. The profitability margins of Asha Diamond have remained stagnant. The EBITDA margin stood at 4.67 percent in FY2019 as against 4.69 percent in FY2018 and 4.45 percent in FY2017. The PAT margin stood at 2.02 percent in FY2019 as against 1.98 percent in FY2018 and 1.88 percent in FY2017. 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. 70.65 crore as on 31 March 2019 as against Rs.61.37 crore as on 31 March, 2018. The tangible net worth as on 31 March, 2018 includes unsecured loan of Rs.28.78 crore considered as quasi equity In FY2018(PY: Rs.15.48 crore) which has been converted into capital in FY2019. The gearing (debt equity) ratio stood moderate at 0.55 times as on 31 March 2019 as against 0.53 times as on 31 March, 2018 (PY: 0.67 times). The total debt of Rs. 38.97 crore outstanding as on 31 March, 2019 is majorly short term working capital borrowing from the bank and Rs.0.28 crore as unsecured loans. Interest Coverage Ratio (ICR) stood at 5.08 times in FY2019 as against 4.94 times in FY2018. The ICR has improved on account of increase in revenue in FY2019 over FY2018. Total outside liabilities to tangible net worth (TOL/TNW) ratio is comfortable at 1.57 times 31 March, 2019 as against 1.71 times as on 31 March, 2018. The net cash accruals of the firm have improved to Rs. 7.53 crore as against Rs.7.41 crore in FY2018.

Weaknesses

- **Working capital intensive nature of business**

The operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 218 days in FY2019 as against 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 has increased to 169 days in FY2019 as against 156 days in FY2018 (PY: 168 days). The receivable days are increased to 46 days in FY2019 as against 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 extended credit from suppliers which moderates the working capital requirement of the firm and is reflected in reduction in interest cost in FY2019 over FY2018. The average bank limit utilisation stood at 85.45 percent for the last six months ended September, 2019.

- **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 and restricts bargaining power with its customers.

Liquidity Position: Adequate

Asha diamond maintains adequate liquidity profile marked by net cash accruals of Rs.7.00 to 7.50 crores against no long term obligations for FY2017 to 2019. The accruals are expected to remain adequate over medium term on account of improving revenue and stable margins. The current ratio of the firm stood at 1.52 times in FY2019 as against 1.44 time in FY2018. The operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 218 days in FY2019 as against 201 days in FY2018 (PY: 194 days). The average bank limit utilisation stood at 85.45 percent for the last six months ended September, 2019. The NCA/TD stands at 0.19 times in FY2019 as against 0.23 times in FY2018.

Rating Sensitivities

- Improving scale of operations
- Moderate working capital cycle
- Uneven margins

Material Covenants

- Cash Margin to be maintained at Rs.2.30 crores.
- Insurance cover for all collateral including stock.

Outlook: Stable

Acuité 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 significant improvement in operating and 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	279.90	275.14	207.74
EBITDA	Rs. Cr.	13.07	12.89	9.24
PAT	Rs. Cr.	5.64	5.46	3.90
EBITDA Margin	(%)	4.67	4.69	4.45
PAT Margin	(%)	2.02	1.98	1.88
ROCE	(%)	11.00	12.95	24.10
Total Debt/Tangible Net Worth	Times	0.55	0.53	0.67
PBDIT/Interest	Times	5.08	4.94	3.01
Total Debt/PBDIT	Times	2.98	2.54	3.24
Gross Current Assets (Days)	Days	218	201	194

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
31-Oct-2018	Packing Credit	Long Term	40.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	20.00	ACUITE BBB- / Stable (Reaffirmed)
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	ACUITE BBB- / Stable (Upgraded)

*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)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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