Press Release

Asha Diamond

December 24, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Negative (Reaffirmed and Outlook revised)

** Refer Annexure for details*

Rating Rationale

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

The revision in the rating outlook to negative indicates the severe effect of the pandemic on the CPD industry not only in terms of its short to medium term impact on demand but also due to trade lockdown in key markets and supply disruptions. This is likely to impact the operating and financial risk profile of Asha Diamonds with a possible decline in operating income and margins over the next 1-2 years. The outlook revision also factors in short term impact on liquidity profile of Asha Diamonds visible through higher reliance on working capital limits and decline in margins. The operating margins stood declined at 2.84 percent in FY2020 as against 4.67 percent in FY2019 and 4.69 percent in FY2018. Also, PAT margin stood declined at 0.76 percent in FY2020 as against 2.02 percent in FY2019 and 1.98 percent in FY2018. Further, any major impact on the debt protection metric impinge a negative bias towards the rating.

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, Mr. Sanket Gandhi, and Mr. Mihir Shah. The firm is engaged in processing of large carat diamonds in the range of 5 carat to 10 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 ~85-90 percent of the firm's total sales.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Establish presence and experienced promoters**

  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. Other Partners, Mr. Pragnesh Patel and Mr. Mihir Shah has over a decade experience and have developed healthy relationships with its customers and suppliers in the diamond industry. The same is reflected through improvement in operations since 2017. The revenues of the firm has increased to Rs. 301.25 crore in FY2020 as against Rs. 279.90 crore in FY2019 and Rs. 275.14 crore in FY2018. Despite impact of pandemic, the firm has booked revenue of Rs. 135.33 crore for the period April to November, 2020.

  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 financial risk profile**
The financial risk profile of the firm has remained moderate marked by tangible net worth of Rs. 77.39 crore as on 31 March, 2020 as against Rs. 70.92 crore as on 31 March 2019 and Rs.61.37 crore as on 31 March, 2018. The net worth includes unsecured loans of Rs. 2.39 crore as on 31 March, 2020 and Rs.0.28 crore as on 31 March 2019 subordinated with bank facility. The gearing (debt equity) ratio stood moderate at 0.77 times as on 31 March 2020 as against 0.55 times as on 31 March, 2019. The total debt of Rs. 59.78 crore outstanding as on 31 March, 2020 majorly consist of working capital borrowing from the banks. Interest Coverage Ratio (ICR) stood at 2.59 times as on 31 March, 2020 as against 5.08 times as on 31 March 2019. The ICR has declined due to increase in reliance on working capital limits and higher interest cost outgo. Total outside liabilities to tangible net worth (TOL/TNW) ratio is moderate at 1.59 times 31 March, 2020 as against 1.56 times as on 31 March, 2019. The net cash accruals of the firm stood lower at Rs. 4.14 crores in FY2020 as against Rs.7.53 crore in FY2019.

Weaknesses

- **Decline in margins and susceptibility of its profitability margins**
The operating margin stood declined at 2.84 percent in FY2020 as against 4.67 percent in FY2019 and 4.69 percent in FY2018. The decline in operating margins is due to decline in per carat realization and increase in raw material cost, which stood at 89.82 percent in FY2020 as against 87.73 percent in FY2019. Other reason for decline is also shifting to low carat diamonds from high carat diamonds Y-o-Y. The PAT margin also stood declined at 0.76 percent in FY2020 as against 2.02 percent in FY2019 and 1.98 percent in FY2018. The decline is due to higher interest cost outgo of Rs. 3.36 crores as against Rs. 2.58 crores in FY2019, due to impact of pandemic resulted in elongation in receivables leading to higher reliance on working capital limits. Further, margins are susceptibility to volatility in diamond prices and fluctuations in forex rates. However, firm 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.

- **Working capital intensive nature of business**
The operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 223 days as on 31 March 2020 as against 218 days as on 31 March 2019. 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 144 days as on 31 March, 2020 and 169 days as on 31 March, 2019. The receivable days have significantly increased to 75 days as on 31 March, 2020 as against 46 days as on 31 March, 2019. This is majorly on account of increase in scale of operations, change to low carat dealing and pandemic. Further, the working capital cycle is supported by limited extended credit from suppliers and moderate reliance on the working capital requirement of the firm.

Liquidity position: Adequate

Asha diamond maintains adequate liquidity profile marked by net cash accruals of Rs.4.14 to 7.55 crore against no long term obligations for FY2018 to 2020. 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 FY2020 and 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 223 days in FY2020 as against 218 days in FY2019. The average bank limit utilisation stood at 94.00 percent for the last six months ended October, 2020. The NCA/TD stands at 0.07 times in FY2020 as against 0.19 times in FY2019.

Rating Sensitivities

- Improvement in scale of Operations Sustaining existing Margins and Liquidity Profile
- Elongation in Working Capital Cycle

Outlook: Negative

The revision in the rating outlook to negative indicates the severe effect of the pandemic on the CPD industry not only in terms of its short to medium term impact on demand but also due to trade lockdown in key markets and supply disruptions. This is likely to impact the financial risk profile of Asha Diamonds with a possible decline in operating income and margins over the next 1-2 years. Further, any major impact of the debt protection metric impinge a negative bias towards the rating. The outlook may be revised to 'Stable' in case of firm demonstrate ability to sustain its revenues, profitability along with maintaining its working capital cycle. Conversely, the rating may be downgraded in case of any deterioration in working capital management and/or sharp decline in its revenues or profitability of the firm leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	301.25	279.90
PAT	Rs. Cr.	2.30	5.64
PAT Margin	(%)	0.76	2.02
Total Debt/Tangible Net Worth	Times	0.77	0.55
PBDIT/Interest	Times	2.59	5.08

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

Any other information
Not Any

Any Material Covenants
Not Any

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Oct-2019	Packing Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Packing Credit	Long Term	40.00	ACUITE BBB-/Stable (Reaffirmed)
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 from ACUITE BB)

21-Apr-2017	Packing Credit	Long Term	20.00	ACUITE BB (Indicative)
	Proposed Packing Credit	Long Term	20.00	ACUITE BB (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE BBB-/Negative (Reaffirmed & Outlook revised)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Negative (Reaffirmed & Outlook revised)

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About Acuité Ratings & Research:

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