

Press Release

Asha Diamond

January 18, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	60.00	ACUITE BBB- Stable Reaffirmed Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	80.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details.

Rating Rationale

Acuite has reaffirmed its 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 '**Stable**' from '**Negative**'.

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.20.00 crore bank facilities of Asha Diamond. The outlook is '**Stable**'.

Rationale for revision in outlook:

The reaffirmation of rating and revision of outlook factors the improvement in profitability margins, firm's ability to maintain a moderate financial risk profile with healthy net worth, low gearing and moderate debt protection matrices and adequate liquidity. Also, the half yearly performance shows decent improvement. However, rating is constrained by working capital intensive operations, higher reliance on working capital limits and tepid market conditions which has impacted demand and lowered spending on discretionary products.

Acuite expects the business and financial performance is likely to improve over the medium term due to improvement in the Covid-19 situation.

About the Company

Asha Diamond based out 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

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

Key Rating Drivers

Strengths

Experienced management and established track record of operation

The firm has established presence in diamond industry since 2009 and 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.

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 stood moderate marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.79.00 crore as on March 31, 2021 as against Rs.77.39 crore as on March 31, 2020. The total debt of the firm stood at Rs.63.72 crore which includes Rs.8.13 crore of long term debt and Rs.55.59 crore of short term debt as on March 31, 2021. The firm has followed a conservative financial policy with gearing (debt-equity) stood at 0.81 times as on March 31, 2021 and 0.77 times as on March 31, 2020. Interest Coverage Ratio stood healthy at 2.55 times for FY2021 as against 2.59 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.16 times for FY2021 as against 2.21 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.18 times as on March 31, 2021 as against 1.59 times as on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.07 times for FY2021 as against 0.07 times for FY2020. Debt/EBIDTA stood at 6.44 times for FY2021 as against 6.83 times for FY2020.

Acuité believes that the financial risk profile of the firm is expected to remain at the same level over the medium term.

Weaknesses

Intensive working capital operations

The operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 234 days in FY2021 as against 223 days in FY2020. 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 133 days in FY2021 as against 144 days in FY2020. The receivable days have significantly increased to 95 days in FY2021 as against 75 days in FY2020. Further, the working capital cycle is supported by limited extended credit from suppliers and moderate reliance on the working capital requirement of the firm. The average bank limit utilization stood high at around 83 percent for the last 8 months ended November 2021.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

Strong Competition and Susceptibility of its profitability margins

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. 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 realization of foreign currency (mainly USD) denominated payment exposes the firm to high foreign exchange fluctuation risk.

Risk of capital withdrawal associated with partnership nature

Asha Diamond was established as a partnership firm in 2009. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

Improvement in the scale of operations as well as profitability margins leading to improvement in overall financial risk profile.
Further stretch in the working capital cycle and liquidity profile of the firm.

Material covenants

None.

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.4.10-7.55 crore during the last three years through 2019-21 as against no maturing debt obligation during the same period. The firm's working capital operation stood intensive marked by GCA days of 234 days in FY2021 as against 223 days in FY2020. The firm maintains an unencumbered cash and bank balances of Rs.0.97 crore as on March 31, 2021. The current ratio of the firm stood at 1.88 times as on March 31, 2021. The average bank limit utilization stood high at around 83 percent for the last 8 months ended November 2021.

Outlook: Stable

Acuité believes the firm will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the firm registers higher than expected revenues and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the firm's revenue or profitability or significant deterioration in the working capital cycle leading to deterioration in its financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	245.18	301.25
PAT	Rs. Cr.	2.83	2.30
PAT Margin	(%)	1.15	0.76
Total Debt/Tangible Net Worth	Times	0.81	0.77
PBDIT/Interest	Times	2.55	2.59

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-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Dec 2020	Packing Credit	Long Term	40.00	ACUITE BBB- Negative (Reaffirmed)
	Packing Credit	Long Term	20.00	ACUITE BBB- Negative (Reaffirmed)
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 (Issuer not co-operating*)
	Proposed Packing Credit	Long Term	20.00	ACUITE BB (Issuer not co-operating*)
21 Jan 2016	Packing Credit	Long Term	20.00	ACUITE BB Stable (Assigned)
	Proposed Packing Credit	Long Term	20.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Indusind Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB- Stable Reaffirmed Negative to Stable
Indusind Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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