

Press Release

Asha Diamond

December 08, 2022

Rating Reaffirmed



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Total Withdrawn Quantum (Rs.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

Rating Rationale

ACUITE has reaffirmed its long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.80.00 crore bank facilities of Asha Diamond (AD). The outlook is revised to **'Negative'** from 'Stable'.

Rationale for change in Outlook:

The change in outlook is on account of expected moderation in scale of operations and profitability of AD. The Company generated a revenue of Rs.301.49 Cr in FY22 as against Rs. 245.18 Cr in FY21. In H1FY2023 it has registered a sale of Rs. 123.68 Cr and is expected to close the year in the range of Rs.240-250 Cr. Moderation in scale is in view of the supply side constraints like increasing prices of rough diamonds, overall slack in demand leading to erosion in the thin profitability margins of the industry players. As per GJEPC reports, exports of cut and polished diamonds fell by (-) 1.27 % during the period H1FY23 vis-à-vis H1FY22. AD over the near term is expected to reduce its overall debt levels by reduction of its working capital limits, in line with its moderated scale. Thus, the financial risk profile of the company will continue to remain moderate, however, the working capital cycle and liquidity position of the company will remain key monitorable. Any further elongation of working capital cycle will lead to deterioration in liquidity position of AD. Going forward, AD's ability to maintain its scale of operations and profitability at expected levels without further elongation of its working capital cycle will remain a key rating monitorable.

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. 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 partners. The Gandhi family is into diamond business for more than four decades. Other partner Mr. Mihir Shah has over a decade experience and have developed healthy relationships with its customers and suppliers in the diamond industry. Acuite believes that the business risk profile of the firm will continue to derive strength 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 moderate net worth, low gearing, and moderate debt protection metrics. The tangible net worth stood at Rs.95.93 crore as on March 31, 2022, as against Rs.79.00 crore as on March 31, 2021. The net worth has improved due to Rs. 12.90 crore net infusion of capital by the partners and accretion of profits to the same. The total debt of the firm stood at Rs.91.06 crore which includes Rs. 14.30 crore of long-term debt and Rs. 76.76 crore of short-term debt as on March 31, 2022. The gearing (debt-equity) stood low at 0.95 times as on March 31, 2022, as compared to 0.81 times as on March 31, 2021. Interest Coverage Ratio stood at 2.42 times for FY2022 as against 2.55 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 2.02 times for FY2022 as against 2.16 times for FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.22 times as on March 31, 2022, as against 1.18 times as on March 31, 2021. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.06 times for FY2022 as against 0.07 times for FY2021.

Acuite believes in absence of debt funded capex plans and overall reduction in working capital limits planned, the financial risk profile of the firm is expected to remain moderate.

Weaknesses

Working capital intensive in nature of business

The working capital management of the firm is intensive marked by GCA days of 208 days in FY2022 as against 234 days in FY2021. The GCA days are driven by a high inventory day which stood at 119 days in FY2022 as against 133 days in FY2021 which is inherent in the gems and jewellery industry. Also, the debtor days stood at 83 days in FY2022 as against 95 days in FY2021. Average bank limit utilisation stood moderate at 69% for six months ended September 2022. AD plans reduce its overall working capital bank limits over the near term, in view of expected moderation in demand in the industry. Acuite believes, ability of AD to ensure timely realisation of its receivables and inventory will remain a key rating monitorable over the medium term.

Strong Competition and Susceptibility of its profitability margins

The gems and jewellery industry is characterised by the presence of many organised and unorganised players resulting in pressure on margins and restricting bargaining power with its customers.

Overall, the industry is facing supply side and inflationary pressures for the rough diamonds, coupled with a slack in demand across regions. These factors will have a direct bearing on scale of operations and margins across players.

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. However, in case of AD, the partners have a track record of infusing funds. The partners have infused Rs. 12.90 Cr in FY2022 as against withdrawal of Rs. 1.22 Cr in FY2021.

Rating Sensitivities

- Ability to maintain its scale of operations and profitability margins.
- Further stretch in the working capital cycle adversely impacting the liquidity position of the firm.

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.14-5.55 crore during the last three years through 2020-22 as against no maturing debt obligation during the same period. The firm is expected to generate net cash accruals in the range of Rs.3.64- 4.89 Cr in FY2023-FY2024, against no maturing debt repayment obligations. The Firm's operations are working capital intensive marked by GCA days of 208 days in FY2022 as against 234 days in FY2021. The company maintains an unencumbered cash and bank balances of Rs 4.56 crore as on March 31, 2022. The current ratio of the company stood at 1.96 times as on March 31, 2022. The average bank limit utilization stood moderate at around 69 percent for the last six months ended September 2022.

Outlook: Negative

The revision in the rating outlook to 'Negative' is in view of the expected moderation in scale of operations and profitability margins of AD. The outlook may be revised to 'Stable' in case the firm sustains its revenues and profitability margins at estimated levels without further stretch in its working capital cycle and deterioration in its liquidity position. Conversely, the rating may be downgraded in case of more than expected deterioration in the firm's scale of operations or profitability margins and further stretch in working capital cycle leading to deterioration in liquidity position of the firm.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	301.49	245.18
PAT	Rs. Cr.	4.03	2.83
PAT Margin	(%)	1.34	1.15
Total Debt/Tangible Net Worth	Times	0.95	0.81
PBDIT/Interest	Times	2.42	2.55

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

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Jan 2022	Packing Credit	Long Term	26.00	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	34.00	ACUITE BBB- Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Indusind Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Indusind Bank Ltd	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Negative Reaffirmed Stable to Negative

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 pradeep.singh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.