

Press Release

Swaminarayan Diamonds Private Limited

May 02, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.38.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.38.00 crore bank facilities of Swaminarayan Diamonds Private Limited (SDPL). The outlook is '**Stable**'.

SDPL, incorporated in 2012 is a Mumbai-based company promoted by Mr. Deepak Patel and Ms. Sweta Patel. The company is engaged in the import, export and trading of rough, cut and polished diamonds.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SDPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

SDPL was incorporated in 2012 by Mr. Deepak Patel and Ms. Sweta Patel. Mr. Patel has around two decades of experience in the diamond sector. He is well supported by his father, Mr. Nagjibhai Patel who has over three decades of experience in the sector.

- **Moderate working capital cycle**

SDPL has moderate working capital cycle marked by Gross Current Asset (GCA) of 112 days in FY2019 (Provisional) compared to 201 days in FY2018. The GCA days are mainly dominated by high debtor days of 84 days in FY2019 (Provisional) compared to 89 days in FY2018. The average cash credit utilisation for the past six months ended 31 March 2019 stood at ~90 percent. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

- **Average financial risk profile**

SDPL has average financial risk profile marked by tangible net worth of Rs.22.71 crore as on 31 March, 2019 (Provisional) as against Rs.22.18 crore as on 31 March, 2018. The gearing improved marginally to 1.94 times as on 31 March, 2019 (Provisional) from 3.49 times as on 31 March, 2018. The debt of Rs.44.08 crore mainly consists of unsecured loans of Rs.7.82 crore, working capital borrowings of Rs.36.19 crore and term loan of Rs.0.07 crore as on 31 March 2019 (Provisional). The Interest Coverage Ratio (ICR) stood low at 1.10 times for FY2019 (Provisional) as against 1.09 times in FY2018. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.02 times as on 31 March, 2019 (Provisional) as against 4.34 times in the previous year.

Going forward, Acuite expects the company to maintain its financial risk profile over the near to medium term.

- **Thin profitability margins**

The operating margins declined to 1.76 times in FY2019 (Provisional) from 2.53 times in FY2018 mainly on account of increase in raw material prices. The PAT margins declined to 0.10 times in FY2019 (Provisional) from 0.12 times in FY2016 mainly on account of increase in interest cost.

- **Intense competition from a large number of players in the organised and unorganised sector**

The cut and polished diamond industry is characterised by the presence of a large number of organised and unorganised players leading to pressure on margins.

Liquidity position

Liquidity of SDPL is moderate marked by low cash accruals. The net cash accruals for the company have improved to Rs.0.29-0.38 crore through FY2016-FY2019 against no debt obligations. SDPL has moderate working capital cycle marked by Gross Current Asset (GCA) of 112 days in FY2019 (Provisional) compared to 201 days in FY2018. The average cash credit utilisation for the past six months ended 31 March 2019 stood at ~90 percent.

Outlook: Stable

Acuite believes that SDPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	220.05	214.34	212.77
EBITDA	Rs. Cr.	3.86	5.43	5.88
PAT	Rs. Cr.	0.22	0.26	0.22
EBITDA Margin	(%)	1.76	2.53	2.76
PAT Margin	(%)	0.10	0.12	0.10
ROCE	(%)	5.07	6.64	9.85
Total Debt/Tangible Net Worth	Times	1.94	3.49	2.07
PBDIT/Interest	Times	1.10	1.09	1.07
Total Debt/PBDIT	Times	10.24	13.78	7.46
Gross Current Assets (Days)	Days	112	201	125

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-17.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.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
06-Feb-18	Cash Credit	Long term	38.00	ACUITE BB-/Stable (Reaffirmed)
26-Oct-16	Cash Credit	Long term	35.00	ACUITE BB-/Stable (Assigned)
	Ad-hoc limits	Long term	3.00	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE BB-/Stable (Reaffirmed)

Contacts

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About Acuite Ratings & Research:

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