

Press Release

Swaminarayan Diamonds Private Limited

November 11, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité 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'.

Rationale for Reaffirmation

The rating reaffirmation draws comfort from the extensive experience of SDPL's promoters in the gems and jewellery industry, timely infusion of funds by the promoters as and when required to meet the incremental working capital requirements, adequate orders in hand and moderate working capital management. The ratings, however, remain constrained by SDPL's average financial risk profile coupled with expected liquidity pressures visible due to insufficient availability working capital limits. Moreover, the business performance is likely to remain muted in FY2021 due to subdued demand outlook of the gems and jewellery industry caused by the Covid-19 pandemic.

About the Company

SDPL, incorporated in 2012, is a Mumbai-based company promoted by Mr. Deepak Patel and Ms. Sweta Patel which is engaged in the bulk trading and processing of rough, cut and polished diamonds for retailers.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The directors Mr. Deepak Patel and Ms. Sweta Patel, have around two decades of experience in the Gems and Jewellery (G&J) industry and particularly in the cut and polished diamond (CPD) segment. The directors are well supported by Mr. Deepak Patel father, Mr. Nagjibhai Patel, who has over three decades of experience in this industry.

Acuité expects that the company will continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

Weaknesses

- **Average financial risk profile**

SDPL has an average financial risk profile marked by modest net worth, average debt protection metrics and high gearing.

The Tangible Net Worth of the company stood modest at Rs.23.02 Cr. as on March 31, 2020 (Provisional) as against Rs.22.45 Cr. as on March 31, 2019. The company follows a moderately aggressive financial policy as reflected by increasing Gearing (Debt to Equity) of 2.47 times as on March 31, 2020 (Provisional) as against 1.96 times as on March 31, 2019. The increasing in gearing is due to infusion of unsecured loans by the promoters to fund the working capital requirements. The debt of SDPL stood at Rs.56.81 Cr. mainly consisting of unsecured loans of Rs.17.46 Cr., working capital facilities of Rs.38.37 Cr. and long term loan of Rs.0.98 Cr. as on March 31, 2020 (Provisional). The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood at 2.82 times as on March 31, 2020 (Provisional) as against 2.02 times as on March 31, 2019.

The ICR (Interest Coverage Ratio) stood adequate at 1.15 times for FY2020 (Provisional) as against 1.12 times in FY2019. The NCA/TD (Net Cash Accrual to Total Debt) has remained stagnant at paltry 0.01 times both as on March 31, 2020 (Provisional) and as on March 31, 2019.

Acuité expects the financial risk profile is expected to remain average in near to medium term on account of the stagnant scale of operations in the absence of significant improvement visible in sight in the near term due to subdued industry outlook caused by the impact of Covid-19.

• Intensive working capital cycle

SDPL's working capital operations are intensive in nature marked by Gross Current Asset (GCA) of 146 days as on March 31, 2020 (Provisional) as against 112 days as on March 31, 2019. The elongation in GCA can be primarily attributed to an increase in the Debtors of 119 days as on March 31, 2020 (Provisional) as against 83 days as on March 31, 2019. The company has maintained Inventory of 16 days as on March 31, 2020 (Provisional) and 20 days as on March 31, 2019. The working capital limits for the past six months ended October, 2020 remain utilized at near 100 percent mainly due to delay in payments from customers on account of Covid-19.

Acuité believes that the working capital requirements could stretch in the near to medium term on account of demand fallout of discretionary items with diamonds being a major item of discretionary goods, which will cause slow movement of inventory and delayed realization from customers due to partial lockdown across some geographies.

• Strong competition from large number of players in the organized and unorganized sector

The cut and polished diamond industry is characterized by the presence of a large number of organized and unorganized players and intense competition resulting in pressure on margins. The cut and polished diamond industry in India is highly fragmented with numerous organized and unorganized players.

Acuité expects that larger players will benefit from healthy relationships with their geographically diversified clientele.

Liquidity position: Stretched

SDPL has a stretched liquidity position marked by 100 percent utilisation of fund based working capital facilities while the working capital requirements remain moderately intensive. SDPL had availed moratorium under the recent RBI guidelines for Covid-19. The company generated cash accruals of Rs.0.57 Cr. against relatively low maturing debt obligations in FY2020 (Provisional). SDPL maintains cash and bank balances of Rs.0.12 Cr. as on March 31, 2020 (Provisional) while the current ratio stands comfortable at 1.86 times as on March 31, 2020 (Provisional).

Acuité expects that the liquidity is likely to remain stretched further if the business performance remains muted going forward in the near to medium term. The improvement in liquidity position is expected to improve from FY2022 with the improvement in the overall discretionary demand in the market.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Slowdown in the industry adversely impacting the business and financial risk profile.

Material Covenants

None

Outlook: Stable

Acuité believes that SDPL will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	214.45	220.05
PAT	Rs. Cr.	0.49	0.28
PAT Margin	(%)	0.23	0.13
Total Debt/Tangible Net Worth	Times	2.47	1.96
PBDIT/Interest	Times	1.15	1.12

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jul-2020	Cash Credit	Long Term	38.00	ACUITE BB- (Indicative)
02-May-2019	Cash Credit	Long Term	38.00	ACUITE BB- / Stable (Reaffirmed)
06-Feb-2018	Cash Credit	Long Term	38.00	ACUITE BB- / Stable (Reaffirmed)

*Annexure – Details of instruments rated

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

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,400 credit 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 Mumbai.

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