

Press Release

Swaminarayan Diamonds Private Limited

August 30, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.00	ACUITE BB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	38.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE BB minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.38.00 Cr. bank facilities of Swaminarayan Diamonds Private Limited (SDPL). The outlook is stable.

Rating Rationale for Rating Upgrade

The rating upgrade is on account of stable operating performance of the company marked by marginal increase in operating income and improvement in working capital cycle. The revenue improved to Rs. 275.94 Cr. in FY22(Prov.) as against Rs. 224.02 Cr. in FY21 and Rs. 214.55 Cr in FY20. The gross current days of the company improved to 118 days as on March 31, 2022 (Prov.) as against 149 days as on March 31, 2021 and 147 days as on March 31, 2020. The financial risk profile continues to remain modest marked by low networth, high gearing coupled with average debt protection metrics.

About the Company

Mumbai based Swaminarayan Diamonds Private Limited was incorporated in 2012 by Mr. Nagjibhai Patel. The day to day operations are currently managed by his son Mr. Deepak Patel and daughter in law Mrs. Sweta Patel. The company is engaged in trading of processed diamonds with retailers. Processing involves polishing and assorting of diamonds.

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 and established track of operations

SDPL started operations in 2012 to process and trade diamonds to retailers.. The promoter-directors Mr. Deepak Patel and Mrs. Sweta Patel have around two decades of experience in the industry and are involved in day to day operations of the Company. The

Board is ably supported by a team of mid-levels managers. SDPL's operating income stood at Rs.275.94 crore in FY22(Prov.) as compared to Rs.224.02 crore in FY21 and Rs.214.55 in FY20.

Acuité believes the experience of the promoters will help the company in maintaining their business risk profile on the back of established track of operations over the medium term.

Weaknesses

Below Average Financial Risk Profile

SDPL has a below average financial risk profile marked by low networth, high gearing and low coverage indicators. The tangible networth stood at Rs. 24.54 crore as on March 31,2022(Prov.) as against Rs.23.11 crore as on March 31,2021 and Rs.22.76 crore as on March 31,2020. The increase in the networth in FY22 is due to the accretion of profits to reserves. The company's overall gearing remained high at 2.71 times as on 31 March, 2022(Prov.) as against 2.83 times as on 31 March, 2021 and 2.51 times as on 31 March, 2020. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.79 times as on March 31, 2022(Prov.) as against 3.06 times as on March 31, 2021 and 2.87 times as on March 31, 2020. The coverage ratios of the company remained modest, marked by Interest Coverage Ratio (ICR) of 1.31 times in FY22(Prov.) as against 1.11 times in FY21 and 1.10 times in FY20. The NCA/TD stood at 0.02 times as on March 31,2022(Prov.) as against 0.01 times as on March 31,2021 and 0.01 times as on March 31,2020.

Acuité believes improvement in SDPL's financial risk profile over the medium term will remain a key rating monitorable

Working Capital Intensive nature of operations

SDPL's operations are working capital intensive in nature as reflected by its improved yet high GCA days of 118 days as on March 31,2022(Prov.) as against 149 days as on March 31,2021 and 147 days as on March 31,2020. The GCA days are driven by debtor days and inventory days. The debtor days stood at 81 days in FY22(Prov.) as against 98 days in FY21 and 120 days in FY20. The improvement in FY22 (Prov.) is due to improved realisations from debtors due to change in terms of credit period offered. The company now offers a credit period of 50-90 days to its customers as against 90-150 days earlier. The inventory days stood at 29 days in FY22(Prov.) as against 39 days in FY21 and 15 days in FY20. The creditor days stood at 2 days in FY22(Prov.) as against 8 days in FY21 and 14 days in FY20. The average utilization of the fund based bank limits of the company remained at around 95-98% percent for last six months period ended June '22.

Acuité believes that the company's ability to manage its working capital efficiently will remain a key rating sensitivity.

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.

Rating Sensitivities

- Significant and sustainable improvement in operating income while maintaining the profitability margins and capital structure
- Sustenance of improvement in working capital cycle

Material covenants

None

Liquidity Position: Stretched

SDPL's liquidity position is stretched marked by modest net cash accruals against repayment obligations. The Company generated net cash accruals of Rs.2.27 crore in FY22 as against its maturing debt obligations of approx. Rs. 2 Cr for the same period. The company is expected to generate net cash accruals of Rs. 1.5-2 crores in FY23-24 as against maturing debt

obligations of Rs. 1-1.25 crore over the same period. The company's GCA days stood at 118 days as on March 31, 2022(Prov.). The current ratio of the company stood at 2.21 times as on March 31, 2022(Prov.) The fund based working capital facility stood highly utilised ranging 95-98 percent for the six months period ended June, 2022. The unencumbered cash and bank balance stood at Rs. 0.07 Cr. as on March 31, 2022(Prov.). Acuite believes that the liquidity position would be stretched over the medium term on account of modest net cash accruals against repayment obligations

Outlook: Stable

Acuite 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...

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	275.94	224.02
PAT	Rs. Cr.	1.29	0.35
PAT Margin	(%)	0.47	0.16
Total Debt/Tangible Net Worth	Times	2.71	2.83
PBDIT/Interest	Times	1.31	1.11

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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 Jan 2022	Cash Credit	Long Term	38.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
11 Nov 2020	Cash Credit	Long Term	38.00	ACUITE BB- Stable (Reaffirmed)
23 Jul 2020	Cash Credit	Long Term	38.00	ACUITE BB- (Issuer not co-operating*)
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)
26 Oct 2016	Cash Credit	Long Term	35.00	ACUITE BB- Stable (Assigned)
	Ad-hoc limits (Fund Based)	Short Term	3.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE BB- Stable Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Simran Kesharwani Analyst-Rating Operations Tel: 022-49294065 simran.kesharwani@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.