

Press Release

Diabu Diamond Tools (India) Private Limited

March 05, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 10.95 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 10.95 crore bank facilities of DIABU Diamond Tools (India) Private Limited (DDPL). The outlook is '**Stable**'.

DDPL, based at Bangalore (Karnataka), was incorporated in 1993. The company is promoted by Mr. Vippen Sareen (Managing Director) and Mr. Venkatesh Maitreya (Director). The company is into manufacturing of cutting tools since 2004. The manufacturing facility is located at Bangalore with installed capacity of 19,00,000 pieces per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established operational track record**

DDPL's promoters have over two decades of experience in the same line of business and are well supported by second line of management. The extensive experience of the promoters has helped the company to maintain longstanding relations with its suppliers and customers.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth stood moderate at Rs.16.17 crore as on 31 March, 2018 as compared to Rs.15.67 crore as on 31 March, 2017. This is mainly on account of retention of current year profit. The gearing of the company stood comfortable at 0.56 times in FY2018, a decline from 0.63 times in FY2017; due to decline in long term loans. Interest Coverage Ratio (ICR) stood healthy at 2.04 times in FY2018 and 2.46 times in FY2017. Debt Service Coverage Ratio (DSCR) stood moderate at 1.91 times in FY2018 as compared to 2.11 times in FY2017. The net cash accruals against total debt stood at moderate 0.10 times in FY2018 as compared to 0.12 times in FY2017 and 0.08 times in FY2016.

Weaknesses

- **Moderate scale of operations**

DDPL has presence of over a decade in the cutting tool manufacturing industry; however, the operations remain at moderate level. The moderate scale of operations is marked by declined operating income of Rs.18.40 crore in FY2018 as compared to Rs.20.76 crore in FY2017. The company has registered revenue of Rs.17.75 crore till January 2019.

- **Working capital intensive operations**

The operations are working capital intensive as reflected in the Gross Current Assets (GCA) of 388 days in FY2018, which has increased from 329 days in FY2017 compared to 333 days in FY2016. The high GCA days emanate from the collection period and inventory days of 272 and 103 in FY2018, which has significantly increased from 220 days and 82 days respectively in

FY2017. The operations are expected to remain working capital intensive, as the company is engaged in the manufacturing of diamond cutting tools. This leads to a relatively high collection and inventory period and inherent cyclical of the machinery manufacturing industry.

Liquidity Position:

Liquidity of DDPL is moderate marked by moderate cash accruals against repayment obligations and working capital intensive operations due to stretch in debtors. It has reported cash accruals of Rs.0.89 crore in FY2018. The company's expected cash accruals are in the range of Rs.0.80 -1.15 crore over the medium term. The operations are working capital intensive due to stretch in debtors to about more than six months and it working capital limits are utilised at 92.61 percent for last six months ending January 2019. Acuité believes that the liquidity of the company is expected to be moderate over the medium term in the absence of significant capex plans.

Outlook: Stable

Acuité believes that DDPL will continue to maintain a 'Stable' outlook over the medium term owing to its experienced and technically qualified management. The outlook may be revised to 'Positive' if the company reports significant improvement in revenue and scale of operations while maintaining operating profitability, leading to considerably cash accruals. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue and profitability leading to lower than expected cash accruals or deterioration in the financial risk profile or higher than expected working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.40	20.76	20.57
EBITDA	Rs. Cr.	1.95	2.44	2.51
PAT	Rs. Cr.	0.49	0.73	0.47
EBITDA Margin	(%)	10.62	11.78	12.22
PAT Margin	(%)	2.67	3.49	2.29
ROCE	(%)	6.12	8.03	16.43
Total Debt/Tangible Net Worth	Times	0.56	0.63	0.72
PBDIT/Interest	Times	2.04	2.46	2.47
Total Debt/PBDIT	Times	4.59	3.92	4.20
Gross Current Assets (Days)	Days	388	329	333

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Crore)	Ratings/Outlook
06-Mar-2018	Cash Credit	Long Term	7.00	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	0.95	ACUITE BB / Stable (Reaffirmed)
	Letter of Credit^	Short Term	3.00	ACUITE A4+ (Reaffirmed)
07-Dec-2016	Cash Credit	Long Term	6.50	ACUITE BB / Stable (Assigned)
	Ad-hoc limits (Fund Based)	Long Term	0.35	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.10	ACUITE BB / Stable (Assigned)
	Letter of Credit^	Short Term	3.00	ACUITE A4+ (Assigned)

[^] Bank Guarantee of Rs.2.00 crore is sub-limit within Import LC.

*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	7.00	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE BB / Stable (Reaffirmed)
Letter of credit^	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.57	ACUITE BB / Stable (Assigned)

[^] Bank Guarantee of Rs.2.00 crore is sub-limit within Import LC.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Rupesh Patel Analyst - Rating Operations Tel: 022-49294032 rupesh.patel@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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.

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. Acuité ratings 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. Acuité ratings 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.