Press Release

Diabu Diamond Tools (India) Private Limited

February 27, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.95 crore
Long Term Rating	ACUITE BB / Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

 # Refer Annexure for details
** The issuer did not co-operate; based on best available information.*

Acuité has reaffirmed a long term rating of **'ACUITE BB' (read as ACUITE double B)** and the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the above mentioned bank facilities of Rs. 10.95 crores for Diabu Diamond Tools (India) Private Limited (DDTL). The outlook is **'Stable'**.

DDTL, based at Bangalore (Karnataka), was incorporated in 1993. The company is promoted by Mr. Vippen Sareen (Managing Director) and Mr. Venkatesh Maitreya (Director). DDTL is engaged in manufacturing of cutting tools since 2004. The manufacturing facility is located at Bangalore with installed capacity of 19, 00,000 pieces per annum and 35,000 meters per anum of wires.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established operational track record**
  DDTL has establish presence of over a decade since 2004 in the said line of business and the promoters possess over two decades of experience in the same line of business. The company is also 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. Acuité believes the company will benefit from it longstanding relationship with clients and experience of the promoters.

- **Moderate financial risk profile**
  The financial risk profile of the company is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth stood moderate at Rs. 16.91 crore as on 31 March, 2019 as against Rs. 16.17 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 0.39 times in FY2019, a decline from 0.56 times in FY2018; due to decline in long term loans. Interest Coverage Ratio (ICR) stood healthy at 2.61 times in FY2019 and 2.04 times in FY2018. Debt Service Coverage Ratio (DSCR) stood moderate at 1.87 times in FY2018 as compared to 1.38 times in FY2018. The net cash accruals against total debt stood at moderate 0.17 times in FY2019 as compared to 0.10 times in FY2018 and 0.12 times in FY2017.

Weaknesses

- **Working capital intensive operations**
  The operations are working capital intensive as reflected in the Gross Current Assets (GCA) of 342 days in FY2019 and 388 days in FY2018. The high GCA days emanate from the collection period and

inventory days of 236 and 104 in FY2019, which stood at 272 days and 103 days respectively in FY2018. The operations are expected to remain working capital intensive, as the company is engaged in the manufacturing of diamond and granite cutting tools. This leads to a relatively high collection and inventory period and inherent cyclicality of the machinery manufacturing industry. This has resulted in increased reliance on working capital limits which stood at 89.00 percent in last six month ending January 2020.

- **Highly fragmented and competitive industry**
  The industry is marked by presence of large number of organized and unorganized players in the industry. The industry is intensely competitive and fragmented industry because of low entry barriers and moderate capital requirements. The high competitive intensity limits the pricing flexibility and exerts pressures on the margins of all participants. Further, the end user of the products are cyclical industries like gems and jewelry and real estate. However, the established brand presence, diversified geographical presence and experienced management mitigates the risk to some extent.

Liquidity Position: Adequate

DDTL's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.0.90 - 1.20 crore during the last three years through 2017-19, while its maturing debt obligations were about Rs.0.21 - 0.35 crore over the same period. DDTL's cash accruals are estimated at around Rs.1.00-1.50 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.20 -0.50 crore with modest regular capex of about Rs.0.50 -1.00 crore. DDTL's operations are highly working capital intensive as marked by gross current asset (GCA) days of 342 in FY2019. Its cash credit limits were highly utilised at about 89.00 percent during the last six months period ended January 2020. The current ratio stood at low at 1.22 times as on March 31, 2018. Acuité believes that liquidity profile of company will continue to be at comfortable levels over the medium term.

Rating Sensitivities

- Improving scale of operations
- Working capital management
- Decline in profitability margins leading to weakening of credit metrics

Outlook: Stable

Acuité believes that DDTL 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 higher 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	21.36	18.40
PAT	Rs. Cr.	0.74	0.49
PAT Margin	(%)	3.46	2.67
Total Debt/Tangible Net Worth	Times	0.39	0.56
PBDIT/Interest	Times	2.61	2.04

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

Not Applicable

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
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
05-Mar-2019	Cash Credit	Long Term	7.00	ACUITE BB / Stable (Reaffirmed)
	Term loans	Long Term	0.38	ACUITE BB / Stable (Reaffirmed)
	Letter of credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Proposed Facility	Long Term	0.57	ACUITE BB / Stable (Assigned)
06-Mar-2018	Cash Credit	Long Term	7.00	ACUITE BB / Stable (Reaffirmed)
	Term loans	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)

#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	7.00	ACUITE BB/ Stable (Reaffirmed)
Term loans	Nov -2017	Not Applicable	Oct - 2020	0.20	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	0.75	ACUITE BB/ Stable (Reaffirmed)

Contacts

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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.