

Press Release

Diabu Diamond Tools (India) Private Limited

February 02, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 10.95 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed and Assigned)
Short term rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the 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**) on the Rs. 10.95 crore bank facilities of 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). Mr. Vippen Sareen, has retired on December 2020. DDTL is engaged in manufacturing of cutting tools since 2004. The manufacturing facility is located at Bangalore with an installed capacity of 7,50,000 pieces per annum and 42,000 meters per annum of wires.

Analytical Approach

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

Key Rating Drivers

Strengths

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

DDTL has established 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 Indian subsidiary of Heinz Büttner GmbH, Diabü Diamantwerkzeuge, a 50-year old German company and one of Europe's leading diamonds Tools Company. The company is supported by providing technical support and raw material supply from parent. The company is also well supported by second line of management. The extensive experience of the promoters and group has helped the company to maintain longstanding relations with its suppliers and customers. Acuité believes the company will benefit from its 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. 17.21 crore as on 31 March, 2020 as against Rs. 16.91 crore as on 31 March, 2019. This is mainly on account of retention of current year profit. The gearing of the company stood comfortable at 0.41 times in FY2020 as against 0.39 times in FY2019 due to increase in short term loans. Interest Coverage Ratio (ICR) stood healthy at 2.06 times in FY2020 and 2.61 times in FY2019. Debt Service Coverage Ratio (DSCR) stood moderate at 1.48 times in FY2020 as compared to 1.87 times in FY2019. The net cash accruals against total debt stood at moderate 0.10 times in FY2020 as compared to 0.17 times in FY2019 and 0.10 times in FY2018.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive as reflected in the Gross Current Assets (GCA) of 356 days in FY2020 as against 342 days in FY2019 and 388 days in FY2018. The high GCA days emanate from the collection period and inventory days of 238 and 113 in FY2020, which stood at 236 days and 104 days respectively in FY2019. 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 cyclical nature of the machinery manufacturing industry. This has resulted in increased reliance on working capital limits which stood at 81.00 percent in last six month ending December 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.0.70 - 1.15 crore during the last three years through 2018-20, while its maturing debt obligations were about Rs.0.20 - 0.35 crore over the same period. DDTL's cash accruals are estimated at around Rs.0.75-1.25 crore during 2021-23, while its repayment obligations are estimated to be around Rs.0.10 -0.25 crore with modest regular capex of about Rs.0.50 -1.00 crore. The current ratio stood at low at 1.22 times as on March 31, 2020. Acuité believes that the liquidity of the company will remain adequate over near to medium term on account of stable net cash accruals, low repayment obligations and absence of any debt funded capex plans.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margins
- Elongation in working capital cycle leading to higher reliance on working capital limits
- Deterioration in debt protection metrics and liquidity profile

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.

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

Not Applicable

Material Covenant

None

Any other information

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19(Actual)
Operating Income	Rs. Cr.	20.97	21.36
PAT	Rs. Cr.	0.31	0.74
PAT Margin	(%)	1.47	3.46
Total Debt/Tangible Net Worth	Times	0.41	0.39
PBDIT/Interest	Times	2.06	2.61

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. Crore)	Ratings/Outlook
27-Feb-20	Cash Credit	Long Term	7.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	0.20	ACUITE BB/Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.75	ACUITE BB/Stable (Reaffirmed)
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	7.40	ACUITE BB/Stable (Reaffirmed)
Term Loan	May 2017	Not Applicable	Apr-2021	0.30	ACUITE BB/Stable (Reaffirmed)
Working capital demand loan (WCTL)	June 2020	Not Applicable	May-2024	1.25	ACUITE BB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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