

## Press Release

### Diabu Diamond Tools (India) Private Limited

April 18, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	-	ACUITE A4+   Reaffirmed
Bank Loan Ratings	8.95	ACUITE BB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	10.95	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed its 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**'.

### Reason for reaffirmation

The rating draws comfort from experienced management, moderate financial risk profile and long operational track record of the company. However, the rating remains constrained by the working capital intensive nature of operations and highly fragmented and competitive nature of the industry.

### About the Company

DDTL, based at Bangalore (Karnataka), was incorporated in 1993. The company is promoted by Mr. Vippen Sareen and Mr. Venkatesh Maitreya (Director). Mr. Vippen Sareen, has retired as a Managing Director 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 of diamond cutting tools and 42,000 meters per annum of diamond wires.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of DDTL to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### Experienced management and long operational track record

DDTL has established presence of over a decade since 2004 in the manufacture of cutting tools 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 promoters possess over two decades of experience in the same line of business supported by stable revenue growth over the years. The extensive experience of the promoters and group has helped the company to maintain longstanding relations with its suppliers and customers.

Acuité believes that the company will benefit from its longstanding relationship with clients and experience of the promoters.

### **Moderate financial risk profile**

DDTL has a moderate financial risk profile marked by modest networth, moderate gearing and comfortable debt protection metrics. Tangible Networth of the company stood at Rs.17.53 Cr as on 31<sup>st</sup> March, 2021 as against Rs.17.21 Cr as on 31<sup>st</sup> March, 2020. Gearing of the company remains moderate at 0.85 times as on 31<sup>st</sup> March, 2021 as against 0.77 times as on 31<sup>st</sup> March, 2020 driven by increase in long term loans in FY2021. Debt protection metrics of the company stood comfortable with DSCR at 1.73 in FY2021 as against 1.69 times in FY2020. Interest Coverage ratio stood at 2.07 times in FY2021 as against 0.06 times in FY2020. The net cash accruals against total debt also remains moderate at 0.06 times in FY2021.

### **Weaknesses**

#### **Working capital intensive operations**

The working capital operations of the company are intensive marked by Gross Current Asset (GCA) days of 368 days in FY2021 as against 356 days in FY2020. Such higher GCA days are driven by higher debtor and inventory days. The debtor days stood at 232 days in FY2021 as against 238 days in FY 2020. The company extends a credit period of 90 to 120 days to its customers. Inventory days stood at 127 days in FY2021 as against 115 days in FY2020. 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. The company also has high reliance on the working capital limits. The average utilisation of the company for 11 months ended February 2022 was 82%.

#### **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.

#### **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

#### **Material covenants**

Not Applicable

#### **Liquidity Position: Stretched**

DDTL's liquidity is stretched marked by expected net cash accrual of Rs. 1.22-1.58 Cr as against maturing debt obligations of Rs. 0.86-0.67 Cr over the medium term. The Net Cash accruals for FY 2021 were 0.82 Cr as against maturing debt obligations of Rs. 0.08 Cr. The Average bank utilisation of the company for 11 months ended February 2022 was 82%. The company has maintained unencumbered cash balance of Rs.0.01 Cr as on 31<sup>st</sup> March,2021 as against Rs.0.03Cr as on 31<sup>st</sup> March 2020.

Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of working capital intensive nature of operations, debt funded capital expenditures and moderate cash accruals against high debt repayments.

### 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.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	21.73	20.97
PAT	Rs. Cr.	0.32	0.31
PAT Margin	(%)	1.48	1.47
Total Debt/Tangible Net Worth	Times	0.85	0.77
PBDIT/Interest	Times	2.07	1.87

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

Not Applicable

### Any other information

Not Applicable

### 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>
- 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
02 Feb 2021	Term Loan	Long Term	0.30	ACUITE BB   Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.25	ACUITE BB   Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	7.40	ACUITE BB   Stable (Reaffirmed)
27 Feb 2020	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	Letter of Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.57	ACUITE BB   Stable (Assigned)

2019	Term Loan	Long Term	0.38	ACUITE BB   Stable (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BB   Stable (Reaffirmed)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.40	ACUITE BB   Stable   Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE BB   Stable   Reaffirmed
Indian Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.97	ACUITE BB   Stable   Reaffirmed

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### About Acuité Ratings & Research

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