

Press Release

Diabu Diamond Tools (India) Private Limited

May 08, 2023



Rating Reaffirmed

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

Rating Rationale

Acuité 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**'

Rationale for reaffirmation

The rating reaffirmation is on account of improvement in the operating performance of the company as the revenue of the company stood at Rs.26.30 Cr. in FY2022 registering a growth of ~21 percent YoY compared to revenue of Rs.21.73 Cr. in FY2021. The growth is driven by both increase in volume sold and improved realisation. Further, the revenue for 11MFY2023 is Rs.22.19 crore. The rating also 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 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

Acuité 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 moderate financial risk profile marked by moderate tangible net worth, low gearing levels and debt protection matrices. The tangible net worth of the company stood at Rs.18.07 crore as on 31 March, 2022 as against Rs.17.53 crore as on 31 March, 2021. The company follows a moderate leverage policy as observed in the low gearing level of the company which stood at 0.94 times as on 31 March, 2022 as against 0.85 times as on 31 March, 2021. The total debt outstanding of Rs.16.97 crore consists of working capital borrowings of Rs.8.59 crore, unsecured loan from promoters of Rs.6.14 crore and term loan of Rs.2.24 crore as on 31 March, 2022. The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 2.27 times for FY2022 against 2.07 times for FY2021. Also, the Debt Service Coverage Ratio (DSCR) stood at 1.31 times for FY2022 against 1.73 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.26 times as on March 31, 2022 against 1.17 times as on March 31, 2021.

Acuite believes that the financial risk profile of the company is expected to remain moderate in the absence of any debt funded capex plan.

Weaknesses

Working capital intensive nature of operations

The operations of the company are of working capital intensive nature marked by high GCA of 318 days for FY2022. The high GCA days are on account of high debtor days of 216 for FY2022 as against 232 days for FY2021. The inventory days are moderate and stood at 90 days for FY2022 as against 127 days for FY2021. The creditor days stood at 67 days for FY2022 as against 87 days for FY2021. The working capital intensive nature of operations has led an higher utilisation of the working capital limits and stood at 82.47% for 10 months ended as on February 2023.

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

None

Liquidity Position Stretched

The liquidity position of the company is stretched marked by low net cash accruals. The company generated net cash accruals of Rs.1.04 crore for FY2022 as against the repayment obligation of Rs.0.56 crore. The utilisation of the working capital limits is higher and stood at 82.47% for 10 months ended as on February 2023. Going ahead, the net cash accruals are expected to be in the range of Rs.0.91 to 1.08 crore and repayment obligations in the range of Rs.0.50 to 0.90 crore during FY2023-2025.

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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 26.30 | 21.73 |
| PAT | Rs. Cr. | 0.53 | 0.32 |
| PAT Margin | (%) | 2.03 | 1.48 |
| Total Debt/Tangible Net Worth | Times | 0.94 | 0.85 |
| PBDIT/Interest | Times | 2.27 | 2.07 |

Status of Non Cooperation with Other CRA

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---------------------------------|
| 18 Apr 2022 | Letter of Credit | Short Term | 2.00 | ACUITE A4+ (Reaffirmed) |
| | Cash Credit | Long Term | 7.40 | ACUITE BB Stable (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 0.58 | ACUITE BB Stable (Reaffirmed) |
| | Working Capital Term Loan | Long Term | 0.97 | ACUITE BB Stable (Reaffirmed) |
| 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) |

Annexure - Details of instruments rated

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

Contacts

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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.

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