

Press Release

Kakadiam

March 21, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed a long term rating of **SMERA BB (read as SMERA Double B plus)** to the Rs. 9.50 crore bank facilities of Kakadiam. The outlook is '**Stable**'.

Kakadiam was established as a partnership firm by Kakadiya family in Surat, Gujarat in 2007. The firm is engaged in trading of diamonds in the "Small Diamond Market". The firm imports rough diamonds from Belgium and Dubai and then goes for cleaning, polishing, assortment, loting process and finally makes the finished product. The firm sells mainly in the markets of Mumbai and Surat.

Key Rating Drivers

Strengths

- **Experienced management**

Kakadiam was established as a partnership firm by Kakadiya family in Surat, Gujarat. The management of kakadiam has experience of about a decade in the given line of business. Mr. Pravinbhai K. Kakadiya, the founder of the firm has worked in diamond field since 2000. The day to day operations of the firm is managed by Mr. Pravinbhai K. Kakadiya who is well supported by experienced and qualified professionals.

- **Improvement in revenues Y-O-Y**

Kakadiam has shown positive growth from Rs.92.30 crore in FY2016 to Rs.118.67 crore in FY2017, an increase of 28.52 percent. The reason for the increase in operating revenue is due to increase in sales.

- **Healthy financial risk profile**

The above average financial risk profile is marked by comfortable gearing, moderate net worth and healthy debt protection measures. The gearing levels of the firm stands comfortable stood at 0.60 times as on March 31, 2017 as against at 0.39 times as on March 31, 2016. The net worth levels of the firm stood at Rs. 15.70 crores as on March 31, 2017 as against Rs. 13.47 crores as on March 31, 2016. The interest coverage ratio stood at 2.88 times respectively in FY2017. The debt service coverage ratio (DSCR) also stood at moderate levels of around 2.88 times in FY2016.

Weaknesses

- **Working capital intensive operations**

Kakadiam's working capital cycle is marked by high Gross Current Asset days (GCA days) at 188 days. This is due to debtor days at 54 in FY2017 as against 21 in FY2016. The high GCA day is due to high inventory days at 134 in FY2017 as against 144 in FY2016.

- **Strong competition from large number of players in the industry**

The gems & jewellery (G&J) industry is characterized by the presence of large number of organized and unorganized players and high competition amongst them leading to pressure on margins. There are more than 6,000 players in the diamond-processing industry. The diamond industry in India is primarily export-oriented.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Kakadiam to arrive at the rating.

Outlook: Stable

SMERA believes that Kakadiam will maintain a stable business outlook in the medium term backed by its promoters' experience and above average financial risk profile. The outlook may be revised to 'Positive' if the firm registers more than expected revenues and net cash accruals. However, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenues, profitability or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	118.67	92.30	59.97
EBITDA	Rs. Cr.	2.52	2.45	1.24
PAT	Rs. Cr.	1.07	0.59	0.23
EBITDA Margin	(%)	2.12	2.66	2.07
PAT Margin	(%)	0.90	0.64	0.38
ROCE	(%)	8.90	13.06	12.15
Total Debt/Tangible Net Worth	Times	0.60	0.39	1.62
PBDIT/Interest	Times	2.88	1.89	2.43
Total Debt/PBDIT	Times	3.73	2.12	5.10
Gross Current Assets (Days)	Days	188	163	192

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28 Decemeber, 2016	Cash Credit	Long Term	7.5	SMERA BB/ Stable (Assigned)
	Term Loan	Long Term	1.33	SMERA BB/ Stable (Assigned)

	Proposed Working Capital Demand Loan	Long Term	0.67	SMERA BB/ Stable (Assigned)
--	--------------------------------------	-----------	------	--------------------------------

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	7.50	SMERA BB/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA BB/ Stable (Reaffirmed)
Proposed Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA BB/ Stable (Reaffirmed)

Contacts:

Analytical	Rating Desk
Suman Chowdhury, President – SMERA Bond Ratings Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Debalina Maity, Rating Analyst, Tel: +91-33-66201212 Email: debalina.maity@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smera.in) for the latest information on any instrument rated by SMERA.