

Press Release

Vnr Exports (VNR)

07 May, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs.24.00 Cr.
Long Term Rating	SMERA BB/Stable (Downgraded)
Short Term Rating	SMERA A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating of VNR Exports to '**SMERA BB**' (read as SMERA double B) from '**SMERA BB+**' (read as SMERA double B plus) and reaffirmed the short term rating to '**SMERA A4+**' (read as SMERA A four plus).

VNR Exports (the erstwhile VNR Enterprises), a Surat-based entity is led by partners, Mr. Vinubhai K Kakadiya, Mr. Pravinbhai B Alagiya, Mr. Rameshbhai M Asodariya and others. The firm is engaged in the processing of rough diamonds to polished diamonds. The firm has facility located in Surat (Gujarat) with installed capacity to process 5,000 carats of rough diamonds in a month.

The rating downgrade reflects decline in revenues, below the earlier estimate as well as highs of Rs.239.5 crores in FY2016. Profitability margins are in line with FY2017 at about 2.5 per cent of operating income. Debt-to-equity and interest coverage ratios are at moderate levels. Total-outside-liabilities to total net worth is high at about 3.0 times. Inventory levels also increased from 49 days as on March 31, 2016 to 162 days as on March 31, 2017.

Key rating drivers

Strengths

Experienced management: The promoters of the company Mr. Vinubhai K Kakadiya, Mr. Pravinbhai B Alagiya, and Mr. Rameshbhai M Asodariya are seasoned players in the Gems & Jewellery industry having experience of around three decades of experience respectively. The promoter's experience coupled with their longstanding presence makes VNR to win repetitive orders from reputed clientele across Hongkong, Belgium, UAE among others. VNR has an order book of about Rs.50 crores for deliverables in the next three months through June 2018. SMERA believes that VNR will benefit from the experienced management over the medium term.

Moderate financial risk profile: VNR's financial risk profile is marked by healthy gearing, moderate net worth and debt protection metrics.. VNR's gearing is healthy at 0.92 times as of March 31, 2017 though net worth is moderate at Rs.28.87 crores. The entity has short term debt of Rs.23.10 crore as on March 31, 2017 as compared to Rs.16.95 crore as on March 31, 2016. ASPL's debt protection metrics of interest coverage ratio (ICR) is moderate at 2.22 times, though net cash accruals to total debt (NCA/TD) is at below-average levels of 0.09 times for FY2017. VNR's total outside liabilities to total net worth (TOLTNW) is high at about 3.8 times as of March 31, 2017. SMERA believes that the financial risk profile is expected to remain moderate over the medium term in the absence of significant debt-funded capex plans.

Weaknesses

Working capital intensive operations: The Company has intense working capital operations, as reflected in high gross current assets (GCA) of 283 days as on March 31, 2017 compared to 147 days as on March 31, 2016 due to high debtor and inventory days. Debtor days stood at 120 as on March 31, 2017 since, the

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company provides trade credit of up to 120 days to its customers. Inventory levels increased from 49 days as on March 31, 2016 to 162 days as on March 31, 2017 due to increase in stock of rough diamonds in last quarter of 2017 to service the orders in FY2018; the higher inventory levels were supported by the creditors too which stands at 188 days. SMERA believes that VNR's operations continue to be working-capital-intensive as demonstrated in the past.

Foreign exchange fluctuation risk: VNR is dealing in both export and import markets which translates into natural hedge to a certain extent. However, substantial time gap between import of rough diamonds and realization of payment and majority of the sales transactions being done in USD exposes the company to high foreign exchange fluctuation risk. The volatility in INR-USD was about 3.8 per cent in FY2017 (with highs of Rs.65.76/USD and lows of Rs.63.34/USD); however, over the past four months through April 26, 2018 rupee depreciated a lot at about 5.5 per cent and which exposed the players to volatile profitability margins. Though the exchange fluctuation is mitigated through forward contracts/foreign currency options and borrowings in foreign currency, SMERA believes VNR is exposed to forex risk.

Analytical approach: SMERA has considered standalone business and financial risk profiles of VNR.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	168.94	239.48	230.77
EBITDA	Rs. Cr.	4.34	3.85	3.08
PAT	Rs. Cr.	1.82	2.15	2.09
EBITDA Margin	(%)	2.57	1.61	1.34
PAT Margin	(%)	1.08	0.90	0.91
ROCE	(%)	7.49	9.20	14.61
Total Debt/Tangible Net Worth	Times	0.92	0.77	0.83
PBDIT/Interest	Times	2.22	3.21	4.00
Total Debt/PBDIT	Times	5.95	5.20	3.84
Gross Current Assets (Days)	Days	283	147	197

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Entities In Manufacturing Sector - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24-Feb-2017	Cash Credit	Long Term	3.00	SMERA BB+/Stable (Assigned)
	Packing Credit	Short Term	5.00	SMERA A4+ (Assigned)
	Post Shipment Credit	Short Term	5.00	SMERA A4+ (Assigned)
	Post Shipment Credit	Short Term	11.00	SMERA A4+ (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	3.00	SMERA BB/Stable (Downgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+ (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+ (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A4+ (Reaffirmed)

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ABOUT SMERA

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