

Press Release

Vaishali Exports

March 13, 2020



Rating Reaffirmed and Withdrawn

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 20.00 Cr. (Revised from Rs.36.00 Cr.) |
| Short Term Rating | ACUITE A4 (Reaffirmed Rs.20.00 Cr.) |
| Short Term Rating | ACUITE A4 (Withdrawn Rs.16.00 Cr.) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs.20.00 crore bank facilities of Vaishali Exports (VE).

Further, Acuité has withdrawn the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs.16.00 crore bank facilities of VE.

Mumbai-based VE, established in 1986 by Mr. Kishore K. Khimavat as a proprietorship concern, was reconstituted as a partnership firm in 2004. The firm is engaged in the trading and export of cut and polished diamonds to UAE, USA, Thailand, and Hong Kong among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

VE was established by Mr. Kishore K. Khimavat in 1986. The firm is now managed by Mr. Rajan K. Khimavat who has experience of more than two decades in this Gems and Jewellery industry.

Acuité believes that VE will continue to benefit from its experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

Weaknesses

- **Working capital intensive operations**

The firm's operations are working capital intensive marked by high Gross Current Asset (GCA) of 190 days in FY2019 as compared to 231 days in FY2018. The GCA days are mainly dominated by high collection period of 158 days in FY2019 compared to 175 days in FY2018 and the inventory days stood at 27 days in FY2019 compared to 53 days in FY2018.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Intense competition from players in the organized and unorganized sector**

The gems & jewellery (G&J) industry is characterised by a large number of organised and unorganised players and intense competition resulting in pressure on margins. The demand for cut and polished diamonds (CPD) is directly linked to discretionary spending by the clients. Significant continued slowness in CPD market generally results in piling up of inventory or delays in realization of receivables due to challenges faced by the end customers.

Further, the firm's entire revenue is generated through exporting to different countries such as UAE, USA, Thailand, and Hong Kong, thereby exposing it to foreign exchange fluctuation risk. However, this risk is mitigated as the firm hedges 30 percent of the exports. Any adverse change in the exchange rates may

impact the profitability and scale of operations of the firm.

Acuité believes that the ability of the firm to manage steady revenue growth, while maintaining profitability and efficiently managing working capital cycle will be the key rating sensitivity factors.

Rating Sensitivities

- Stretch in GCA days to around 215-230 days.
- Substantial improvement in scale of operation (~Rs. 120.00-135.00 crore), while maintaining profitability margin of around 4.0-6.0 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 1.27 crore - Rs. 1.74 crore during the last three years through 2017-19; while the maturing debt obligations were nil over the same period. The cash accruals are estimated to be in the range of Rs. 1.29 crore – Rs. 1.32 crore during 2019-21, while its repayment obligations are expected to be nil over the same period. The company maintains cash and bank balances of Rs. 0.39 crore as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 124.30 | 103.77 |
| PAT | Rs. Cr. | 0.93 | 1.03 |
| PAT Margin | (%) | 0.75 | 0.99 |
| Total Debt/Tangible Net Worth | Times | 1.09 | 1.31 |
| PBDIT/Interest | Times | 2.09 | 2.32 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|------------|------------------|-------------------------|
| 22-Nov-2019 | Bills Discounting | Short Term | 36.00 | ACUITE A4 (Indicative) |
| 19-Sept-2018 | Bills Discounting | Short Term | 36.00 | ACUITE A4+ (Reaffirmed) |
| 26-Mar-2018 | Bills Discounting | Short Term | 36.00 | ACUITE A4+ (Indicative) |
| 03-Apr-2017 | Bills Discounting | Short Term | 36.00 | 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 |
|------------------------|------------------|----------------|----------------|-----------------------------|------------------------|
| Bill Discounting | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A4 (Reaffirmed) |
| Bill Discounting | Not Applicable | Not Applicable | Not Applicable | 16.00 | ACUITE A4 (Withdrawn) |

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuite.in | |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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