

Press Release

Vishal Diamonds

August 02, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs.25.00 Cr
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

*Refer Annexure for details

Rating Rationale

Acuité has downgraded the short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.25.00 crore bank facilities of Vishal Diamonds.

The downgrade revision is in view of lower than expected revenues and deterioration in working capital cycle in FY2018 over FY2017. Acuité believes that the ability of the firm to maintain its revenue and further improve its working capital cycle by maintaining adequate liquidity will be a key rating sensitivity.

The Mumbai-based Vishal Diamonds, a partnership firm established in 1998 by Mr. Sunay Gandhi, Mr. Chetan Gandhi, Mrs. Sejal Gandhi and Mrs. Vishakha Gandhi. The firm trades in polished diamonds, and also manufactures diamond-studded gold jewellery. The firm derives around 50 percent of its revenues from trading in diamonds, and the balance 50 percent from sale of diamond studded gold jewellery. The firm exports polished diamonds to China, UAE, US, Hong Kong and Russia.

Key rating drivers

Strengths

- **Established track record of operations and experienced management**

Vishal Diamonds was established in 1998, thereby establishing track record of operations for two decades. The firm has developed healthy relations with its customers. Acuité believes that the firm will be benefitted by the experienced management and established track record of operations over the medium term.

Weaknesses

- **Uneven revenue trend**

The firm has shown uneven revenue trend during the period FY2016 to FY2018 under the study. The revenue stood at Rs.66.24 crore in FY2018 (Provisional) as against Rs.75.72 crore in FY2017 and Rs.65.84 crore in FY2016. The reason for revenues to be uneven is on account of intense competition and negative industry sentiments. Revenue mix till FY2017 was 80 percent from trading and 20 percent from manufacturing. For FY2018, the revenue from manufacturing of diamond studded gold jewellery was 50 percent and remaining 50 percent was from trading of diamonds. Acuité believes that the ability of the firm to scale up its operations while maintaining the profitability in such competitive industry over the medium term will be key rating sensitivity.

- **Average financial risk profile**

The financial risk profile has remained average marked by tangible net worth of Rs.10.59 crore as on 31 March, 2018 (Provisional) as against Rs.10.52 crore as on 31 March, 2017. The gearing stood at 1.56 times as on 31 March, 2018 (Provisional) as against 1.29 times as on 31 March, 2017. The total debt outstanding of Rs.16.48 crore as on 31 March, 2018 (Provisional) is working capital borrowings from the bank. The interest coverage ratio stood at 1.63 times in FY2018 (Provisional) as against 1.66 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) increased to 3.52 times as on 31 March, 2018 (Provisional) as against 2.77 times as on 31 March, 2017. The reason for increase in TOL/TNW is due to increase in utilisation of working capital limits from the bank in FY2018 over FY2017. The net cash accruals stood at Rs.0.45 crore in FY2018 (Provisional) as against Rs.0.57 crore in FY2017.

- **Deterioration in working capital cycle**

The working capital cycle has deteriorated in FY2018 over FY2017 reflecting in its increase in Gross Current Assets (GCA) of 254 days in FY2018 (Provisional) as against 172 days in FY2017. The reason for increase in GCA days is majorly on account of increase in inventory holding period and receivables in FY2018 over FY2017. The inventory holding period stood at 110 days in FY2018 (Provisional) as against 61 days in FY2017 as the firm has started manufacturing of large carat diamonds which contributed 50 percent of the total revenue mix in FY2018 (Provisional). The receivables days have also increased to 124 days in FY2018 (Provisional) as against 106 days in FY2017. The firm gets extended credit period from its suppliers of around 90 to 120 days which moderates the working capital requirements. The average bank limit utilisation stood at 68.51 percent for the last six months ended May 2018. Acuité believes that the ability of the firm to maintain its working capital cycle will be key ratingsensitivity.

- **Foreign exchange fluctuation risk**

Around 81 percent of revenue of the firm is generated through exporting to different countries such as China, UAE, US, Hong Kong and Russia, thereby exposing it to foreign exchange fluctuation risk. However, this risk is mitigated as the firm imports around 68 percent of its total purchases which results into natural hedging. Any adverse change in the exchange rates may impact the profitability and scale of operations of the firm.

Analytical approach:

Acuité has considered the standalone financial and business risk profile of Vishal Diamonds to arrive at the rating.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.24	75.72	65.84
EBITDA	Rs. Cr.	1.28	1.39	1.08
PAT	Rs. Cr.	0.23	0.32	0.31
EBITDA Margin	(%)	1.93	1.84	1.64
PAT Margin	(%)	0.35	0.42	0.47
ROCE	(%)	4.69	5.76	4.14
Total Debt/Tangible Net Worth	Times	1.56	1.29	0.62
PBDIT/Interest	Times	1.63	1.66	2.18
Total Debt/PBDIT	Times	11.61	9.48	5.94
Gross Current Assets (Days)	Days	242	172	156

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
03-Jul-2017	Foreign Documentary bill purchase (FDBP)	Short term	25.00*	ACUITE A4+ (Assigned)

* Includes sublimit as Direct Bills of Rs.12.50 Cr , Packing Credit of Rs.8.50 Cr and Gold Loan of Rs. 2.00 Cr

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Foreign Documentary bill purchase (FDBP)	Not Applicable	Not Applicable	Not Applicable	25.00*	ACUITE A4 (Downgraded from ACUITE A4+)

* Includes sublimit as Direct Bills of Rs.12.50 Cr , Packing Credit of Rs.8.50 Cr and Gold Loan of Rs. 2.00 Cr