

Press Release

Vishal Diamonds

October 19, 2019

Rating Reaffirmed



| | |
|-------------------------------------|---------------------------|
| Total Bank Facilities Rated* | Rs. 25.00 Cr. |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 25.00 crore bank facilities of VISHAL DIAMONDS. The outlook is '**Stable**'.

Mumbai-based Vishal Diamonds (VD), a partnership firm established in 1998. The partners of the firm are Mr. Sunay Gandhi, Mr. Chetan Gandhi, Mrs. Sejal Gandhi, Mrs. Vishakha Gandhi and Ms. Shruti Gandhi. The firm trades in polished diamonds, and also manufactures diamond-studded gold jewellery. The firm derives around 40 per cent of its revenues from trading in diamonds, and the balance 60 per cent from manufacturing of diamond and diamond studded gold jewellery. Further, the firm exports ~80 per cent of polished diamonds mainly to UAE and USA.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Vishal Diamonds was established in 1998; thus, the firm has an operational track record of over two decades in gems and jewellery industry. The partners of the firm have an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of the management have helped the firm develop healthy relationships with its customers and suppliers. Acuité believes that VD will sustain its existing business profile on the back of established track record of operations and experienced management.

Weaknesses

- **Moderate scale of operations and thin profitability**

The firm has shown uneven revenue trend during the period FY2017 to FY2019 under the study. However, the revenues improve in FY2019 and stood moderate at Rs. 80.12 crore as against Rs.65.19 crore in FY2018 and Rs. 75.72 crore in FY2017. The reason for revenues to be uneven is on account of intense competition. Revenue mix till FY2017 was 80 per cent from trading and 20 per cent from manufacturing. For FY2019, the revenue from manufacturing of diamond and diamond studded gold jewellery was ~60 per cent and remaining ~40 per cent was from trading of diamonds. Further, the profitability remained thin marked by EBITDA margin of 2.66 per cent in FY2019 as against 2.46 per cent in FY2018. Acuité believes that the ability of the firm to maintain its scale of 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. 10.80 crore as on 31 March, 2019 as against Rs. 10.50 crore as on 31 March, 2018. The gearing (debt-to-equity) stood at 2.10 times as on 31 March, 2019 as against 1.55 times as on 31 March, 2018. The total debt outstanding of Rs. 22.62 crore as on 31 March, 2019 is working capital borrowings from the bank. The interest coverage ratio stood at 1.41 times for FY2019 as against 1.47 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) increased to 4.39 times as on 31 March, 2019 from 3.82

times as on 31 March, 2018. The reason for increase in TOL/TNW is due to increase in utilisation of working capital limits from the bank in FY2019 over FY2018. Further, Debt to EBITDA stood high at 10.32 times for FY2019 as against 9.15 times for FY2018.

• Working capital intensive operations

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 246 days in FY2019 as against 260 days in FY2018. The reason for increase in GCA days is majorly on account of high inventory holding period and receivables in FY2019 and FY2018. The inventory holding period stood at 105 days in FY2019 as against 112 days in FY2018 as the firm has started manufacturing of large carat diamonds which contributed 60 per cent of the total revenue mix in FY2019. The receivables days also stood high at 135 days in FY2019 as against 143 days in FY2018. Acuite believes that the ability of the firm to maintain its working capital operations will be key rating sensitivity.

• Foreign exchange fluctuation risk

Around 80 per cent of revenue of the firm is generated through exporting to different countries such as UAE and USA, thereby exposing it to foreign exchange fluctuation risk. However, this risk is mitigated as the firm imports around 65 per cent 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.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs. 90.00-100.00 crore), while maintaining profitability margin of around 3 per cent over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Any Material Covenants

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals of Rs. 0.63 crore for FY2019. The firm has no maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.70 crore to positive of Rs. 1.20 crore during 2020-22 against no repayment obligation for the same period. Gross Current Asset (GCA) days stood high at 246 days for FY2019. The firm maintains unencumbered cash and bank balances of Rs. 0.02 crore as on 31 March, 2019. The current ratio stood at 1.19 times as on 31 March, 2019. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accrual over the medium term.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 80.12 | 65.19 | 75.72 |
| EBITDA | Rs. Cr. | 2.13 | 1.61 | 1.39 |
| PAT | Rs. Cr. | 0.41 | 0.34 | 0.32 |
| EBITDA Margin | (%) | 2.66 | 2.46 | 1.84 |
| PAT Margin | (%) | 0.52 | 0.52 | 0.42 |
| ROCE | (%) | 6.56 | 5.83 | 5.44 |
| Total Debt/Tangible Net Worth | Times | 2.10 | 1.55 | 1.51 |
| PBDIT/Interest | Times | 1.41 | 1.47 | 1.66 |
| Total Debt/PBDIT | Times | 10.32 | 9.15 | 11.16 |
| Gross Current Assets (Days) | Days | 246 | 260 | 184 |

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-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 |
|-------------|---------------------------------|------------|------------------|---|
| 02-Aug-2018 | Bills Discounting | Short Term | 25.00 | ACUITE A4 (Downgraded from ACUITE A4+) |
| 03-Jul-2017 | Bills Discounting | Short Term | 25.00 | 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 | 25.00* | ACUITE A4 (Reaffirmed) |

*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

Contacts

| Analytical | Rating Desk |
|---|---|
| <p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Priyal Jain Analyst - Rating Operations Tel: 022-49294043 priyal.jain@acuite.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p> |

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. Acuite 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite 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 Acuite.