

Press Release

Vishal Diamonds

March 25, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.25.00 Cr. bank facilities of Vishal Diamonds (VD).

About the Company

Mumbai-based Vishal Diamonds (VD) is 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

Acuite has considered the standalone view of the business and financial risk profile of VD 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.

Acuite believes that VD will sustain its existing business profile on the back of established track record of operations and experienced management

Weaknesses

- **Modest scale of operations marked by deterioration in the business risk profile**

Vishal Diamonds recorded an operating income of Rs.61.99 crore in FY2020 as compared to Rs.80.12 crore in FY2019 while the firm earned a revenue of Rs.19.59 crore in 9MFY21, the overall revenue expected to decline in FY2021 be ~40 percent due to the impact of Covid-19. Being into Gems and Jewellery industry the business risk profile of the firm remains considerably impacted. The firm, at the same time faces issues such as elongation in realization of old bills leading to stretched working capital cycle and tepid market condition has resulted in stress on operating performance and business risk profile.

Acuite believes that realisation of bills and the overall demand of the products within this industry will remain a key rating sensitivity factor

- **Average Financial risk profile**

The financial risk profile continues to remain average marked by modest net worth (Partners Capital), moderate gearing and debt protection metrics. The Tangible net worth (Partners capital) stood at Rs.10.30 crore as on March 31, 2020 as against Rs.10.80 crore as on March 31, 2019. The gearing has moderately improved to 1.89 times as on March 31, 2020 as against 2.10 times as on March 31, 2019.

The total debt profile consist of short term debt availed by the entity. The net cash accruals remain

adequate at Rs.0.53 crore for FY2020 as against minor debt repayments in FY2021 for the Covid emergency credit line availed by the firm whose repayment is expected to start in second half of 2021.

The interest coverage ratio (ICR) stood at 1.36 times in FY2020 as against 1.41 times in FY2019. The total outside liabilities to tangible net worth stood at 4.24 times as on March 31, 2020 as against 4.39 times as on March 31, 2019, while the NCA/TD remains paltry at 0.03 times during the FY2018-20 period.

• Intensive Working capital requirements

Vishal Diamonds' operations are working capital intensive marked by Gross Current Assets (GCA) of 293 days in FY2020 as compared to 246 days in FY2019. The GCA days are mainly dominated by increase in debtor's collection period of 157 days in FY2020 as against 135 days in FY2019 and the inventory holding period of 126 days in FY2020 as against 105 days in FY2019. The elongation is mainly on account of nationwide lockdown and delay in realization of bills. Elongation of its already stretched GCA days coupled with conservative approach by the firm to use debt facilities has impacted the working capital management of the firm. The working capital limit utilization which stood at ~ 60 percent for the last six months ended as on February 2021.

Acuite believes that any further deterioration in the working capital management of VD will remain key rating sensitivity factor

• 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 partially 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.

Liquidity position: Stretched

The liquidity of Vishal Diamonds remains stretched and is currently impacted by the pandemic and the stress is expected to continue till the recovery in demand and improvement in operating cash flows in the industry. The firm has low NCA of Rs.0.53 crore in FY2020 as against repayment obligations beginning FY2021 for the covid loan availed by the firm. The firm has unencumbered cash and bank balances of Rs.0.08 crore, while the current ratio stood at 1.20 times as on March 31, 2020. The working capital limit utilization which stood at ~ 60 percent for the last six months ended as on February 2021, this gives some liquidity buffer to the firm.

Acuite believes that liquidity of the firm will remain stretched owing to low net cash accruals on account of significant impact of Covid-19 on the entity. VD's ability to manage its liquidity position will remain a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook

Not Applicable

About the Rated Entity – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	61.99	80.12
PAT	Rs. Cr.	0.33	0.41
PAT Margin	(%)	0.54	0.52
Total Debt/Tangible Net Worth	Times	1.89	2.10
PBDIT/Interest	Times	1.36	1.41

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

None

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>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Sep-2020	Bills Discounting	Short Term	25.00	ACUITE A4 (Indicative)
19-Oct-2019	Bills Discounting	Short Term	25.00	ACUITE A4 (Reaffirmed)
02-Aug-2018	Bills Discounting	Short Term	25.00	ACUITE A4 (Downgraded)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	25.00*	ACUITE A4 (Reaffirmed)

* Includes sublimit of Direct Bills of Rs.12.50 Cr.

* Includes sublimit of Packing Credit of Rs.8.50 Cr.

* Includes sublimit of Gold Loan of Rs.2.00 Cr.

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About Acuité Ratings & Research:

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