

Press Release

H Riddhesh And Co

January 27, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 9.00 Cr.
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.9.00 crore bank facilities of H RIDDHESH AND CO (HRC). The outlook is '**Stable**'.

HRC, a partnership firm established in 2001 is led by Mr. Samkit Gandhi. The firm is engaged in the processing of diamonds at Surat and has installed capacity of 450 pieces of diamonds per month. The firm is largely into exports and realises 60 per cent revenue from Dubai, Hong Kong, and UAE and the rest from the domestic market.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

HRC is promoted by its partners, Mr. Samkit R Gandhi, Mr. Dineshbhai D Gandhi, Mr. Harshit L Gandhi, Mr. Laherchand D Gandhi and Mr. Riddesh D Gandhi who has experience of more than a decade in gems and jewellery industry. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers.

Acuité believes that HRC will continue to benefit from its experienced management and established relationships with customers.

- **Consistent growth in scale of operations and high profitability**

The firm has reported revenue growth with compounded annual growth rate (CAGR) of around 6.79 percent through the last three years ended 31 March, 2019. The firm reported moderate revenue growth of ~9.29 percent with operating income of Rs.89.77 crore in FY2019 as against operating income of Rs. 82.14 crore in FY2018. Further, firm has registered revenues of Rs.50.86 crore for the period of April to September, 2019. The operating margins of the firm declined to 3.13 percent in FY2019 from 3.81 percent in FY2018 because of increase in certain overhead expenses.

- **Moderate financial risk profile:**

The financial risk profile is moderate marked by moderate net worth, debt protection measures and gearing. The net worth of the firm is moderate at Rs.18.62 crore as on 31 March, 2019 as against Rs.9.66 crore as on 31 March, 2018. The gearing of the firm has stood moderate at 0.72 times as on March 31, 2019 as against 1.10 times as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.52 times as on 31 March, 2019 from 3.70 times as on 31 March, 2018. The consistent growth in revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) stood at 2.27 times in FY2019 as against 1.95 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on 31 March, 2019 as against 0.15 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.27 times for FY2019 as against 1.95 times in FY2018.

Acuité believes that the financial risk profile of HRC will continue to remain moderate over the medium term on account of its improving scale of operations.

Weaknesses

• Intensive working capital operations

HRC has intensive working capital operations marked by Gross Current Assets (GCA) of 180 days in FY2019 as against 190 days in FY2018. The inventory and debtors' levels stood at 126 and 50 days in FY2019 as against 165 and 26 days in FY2018, respectively. However, the average utilization of bank limits stood low at ~50 per cent in the last six months ending December, 2019.

Acuité believes, going ahead, the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

Rating Sensitivity

- Significant improvement in scale of operations along with profitability.
- Deterioration in financial risk profile.

Material Covenants

None.

Liquidity Position: Adequate

HRC has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.58 crore in FY2019 as against Rs.1.54 crore in FY2018 and Rs.1.52 crore in FY2018, while its maturing debt obligation was nil for the said period. The cash accruals of the firm are estimated to remain around Rs.1.77 to Rs.2.07 crore during 2019-21. The firm's working capital operations are intensive as marked by high gross current asset (GCA) days of 180 in FY2019. However, working capital borrowings are 50 per cent utilized during the last 6 months' period ended December, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.40 crore as on March 31, 2019. The current ratio of the firm stands at 2.55 times as on March 31, 2019.

Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that HRC will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in HRC's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	89.77	82.14
PAT	Rs. Cr.	1.27	1.25
PAT Margin	(%)	1.42	1.52
Total Debt/Tangible Net Worth	Times	0.72	1.10
PBDIT/Interest	Times	2.27	1.95

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-59.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
17-Dec-2018	Packing Credit	Long Term	4.50	ACUITE A4+ (Reaffirmed)
	Post Shipment Credit	Long Term	4.50	ACUITE A4+ (Reaffirmed)
18-Aug-2018	Packing Credit	Long Term	4.50	ACUITE A4+ (Indicative)
	Post Shipment Credit	Short Term	4.50	ACUITE A4+ (Indicative)
17-Jul-2017	Packing Credit	Long Term	4.50	ACUITE A4+ (Assigned)
	Post Shipment Credit	Short Term	4.50	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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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