Press Release

H Riddhesh and Co

December 23, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 9.00 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 plus)** on 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 marked by 60 per cent of revenue from Dubai, Hong Kong, and UAE and the rest from the domestic market.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of HRC to arrive at the 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 two decades in gems and jewellery industry. The extensive experience has enabled the firm to forge healthy relationships with customers and suppliers.

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

- **Increase in profitability**

  The operating margins of the firm improved to 3.66 percent (Provisional) in FY2020 from 3.13 percent in FY2019. This is majorly because of the increase in selling prices and reduction in certain expenses. Further, Profit After Tax (PAT) marginally deteriorated to 1.31 per cent (Provisional) in FY2020 from 1.42 per cent in FY2019.

  Acuité believes that the margins will remain muted for FY2021 due to COVID19 impact.

- **Moderate financial risk profile**

  The financial risk profile is moderate marked by moderate net worth, debt protection measures and low gearing. The net worth of the firm is high marked by Rs.19.27 crore (Provisional) as on 31 March, 2020 as against Rs.18.62 crore as on 31 March, 2019. The gearing of the firm stood low at 0.54 times (Provisional) as on March 31, 2020 as against 0.72 times as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.98 times (Provisional) as on 31 March, 2020 as against 1.52 times as on 31 March, 2019. Interest Coverage Ratio (ICR) deteriorated to 1.93 times (Provisional) in FY2020 as against 2.27 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times (Provisional) as on 31 March, 2020 as against 0.12 times as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood at 1.93 times (Provisional) for FY2020 as against 2.27 times in FY2019.

  Acuité believes that the financial risk profile of HRC will remain moderate due to adequate net cash accruals and no long term debt and nil utilisation of short term borrowing.

Weaknesses

- **Deterioration in scale of operations**
  The firm has reported deterioration in revenue by ~35.61 percent marked by with operating income of Rs.57.80 crore (provisional) in FY2020 as against operating income of Rs.89.77 crore in FY2019. Further, the firm has registered revenues of around Rs.32.30 crore for the period of April to November, 2020.
  Acuité believes that the scale of operations will remain muted for FY2021 due to impact of COVID19.

- **Intensive working capital operations**
  HRC has intensive working capital operations marked by high Gross Current Assets (GCA) of 349 days (Provisional) in FY2020 as against 180 days in FY2019. The inventory and debtors' levels stood at 317 and 24 days in (Provisional) FY2020 as against 126 and 50 days in FY2019, respectively. However, the bank limit has not been utilised by the firm for the past one year ending November, 2020.
  Acuité believes, going ahead, the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

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.1.03 crore (Provisional) in FY2020 as against Rs.1.58 crore in FY2019, while its maturing debt obligation was nil for the said period. The cash accruals of the firm are estimated to remain around Rs.0.95 to Rs.1.63 crore during 2021-23. The firm's working capital operations are intensive as marked by high gross current asset (GCA) days of 349 (Provisional) in FY2020. However, working capital borrowings are not utilized during the last one year for the period ending November, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.94 crore (Provisional) as on March 31, 2020. The current ratio of the firm stands at 2.00 times (Provisional) as on March 31, 2020.
Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate net cash accruals and no long term borrowing and no utilisation of short term borrowing.

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.

Rating Sensitivities

- Significant improvement in scale of operations.
- Further stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Crore	57.80	89.77
Profit after tax (PAT)	Rs. Crore	0.76	1.27
PAT margin	%	1.31	1.42
Total debt / Tangible Net worth	Times	0.54	0.72
PBDIT / Interest	Times	1.93	2.27

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
- 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
27-Jan-2020	Packing Credit	Short Term	4.50	ACUITE A4+ (Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A4+ (Reaffirmed)
17-Dec-2018	Packing Credit	Short Term	4.50	ACUITE A4+ (Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A4+ (Reaffirmed)
18-Aug-2018	Packing Credit	Short Term	4.50	ACUITE A4+ (Indicative)
	Post Shipment Credit	Short Term	4.50	ACUITE A4+ (Indicative)

***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)

Contacts

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About Acuité Ratings & Research:
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