Press Release

Parth Diamond Private Limited

December 07, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and the short term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs.15.00 Crore bank facilities of Parth Diamond Private Limited (PDPL). The outlook is **'Stable'**.

About the Company

Established in 2000, PDPL is a Mumbai-based company engaged in manufacturing of gold and diamond-studded jewellery for domestic retailers on a contract basis. The company has its manufacturing unit located at Surat (Gujarat) from where it procures cut and polished diamonds. The company caters to reputed clients like Titan Company Limited.

Analytical Approach

Acuité has considered the consolidated business and financial profiles of Parth Diamond Private Limited and Parth Fine Jewels together known as 'Parth Group' (PG). The consolidation is in view of the common management, strong operational and financial synergies within the group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of promoters in gems and jewellery industry**

PG is promoted by Mumbai-based Jariwala family who possesses nearly two decades of experience in the gems and jewellery industry. The group is engaged in manufacturing of gold and diamond-studded jewellery. PG has established relationship with reputed clients of over a decade and caters to reputed clients including Titan Company Limited among others.

Acuité expects PG to maintain its business risk profile going forward on account of its experienced promoters and established presence in the industry.

Weaknesses

- **Deterioration in financial risk profile**

PG has deteriorating and average financial risk profile marked by modest tangible net worth, stable gearing and deteriorating debt protection metrics.

The net worth of PG stood at Rs.12.83 Cr. as on March 31, 2020 (Provisional) as against Rs.12.46 Cr. as on March 31, 2019. The group follows a conservative financial policy as reflected in its Gearing (Debt to Equity) of 0.91 times as on March 31, 2020 (Provisional) as against 0.90 times as on March 31, 2019. The debt profile majorly comprises of working capital facilities, unsecured loan and term loans. The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 1.79 times as on March 31, 2020 (Provisional) as against 1.88 times as on March 31, 2019.

The debt protection metrics have marginally deteriorated on Y-O-Y basis. The ICR (Interest Coverage Ratio) has deteriorated to 1.74 times as on March 31, 2020 (Provisional) as against 1.94 times as on March 31 2019 and the DSCR (Debt Service Coverage Ratio) too has deteriorated to 1.48 times as on March 31, 2020 (Provisional) as against 1.79 times as on March 31 2019. The NCA/TD (Net Cash Accrual to Total Debt) stood paltry at 0.09 times as on March 31, 2020 (Provisional) as against 0.10 times as on March 31, 2019.

Acuité believes that the financials risk profile of the company is expected to average in the near to medium term on account of modest net worth, moderate net cash accruals vis-à-vis minor repayment obligations and average debt protection metrics.

- **Intensive working capital cycle**

PG has intensive working capital cycle marked by deterioration of GCA to 209 days as on March 31, 2020 (Provisional) as against 164 days as on March 31, 2019. The deterioration in GCA is due to deterioration in Inventory holding period to 159 days as on March 31, 2020 (Provisional) as against 118 days as on March 31, 2019. The Debtors stood stable at 39 days as on March 31, 2020 (Provisional) as against 38 days as on March 31, 2019.

The Creditors too have deteriorated to 78 days as on March 31, 2020 (Provisional) as against 68 days as on March 31, 2019. The current ratio stands average at 1.48 times as on March 31, 2020 (Provisional) as against 1.40 times as on March 31, 2019, while the average utilisation of fund based and non-fund based working capital facilities stands at ~95 percent for the 6 months period till October, 2020.

Acuité believes that the working capital cycle of PG is expected to remain at intensive levels in the near to medium term and will remain key rating sensitivity factor.

- **Susceptibility to timely revival of consumer spending amidst the ongoing economic slowdown; COVID - 19 like calamities and intense competition impose near term challenges**

PG has a presence in gems and jewellery segment, the business profile is linked to level of discretionary spending pattern of the consumer. Any improvement in the economic parameters such as per capita income, high level of disposable income, improved job creation etc. leads to higher level of spending. Conversely, in the event of prolonged economic slowdown due to myriad factors like natural calamities, there could be job losses and consequently slowdown in discretionary spending by the consumers. While the challenges will be more acute in the discretionary segments, even players like PG who has a presence on Gems and Jewellery Sector will not be insulated from these economic events. The competition in the segment will have a bearing on the future growth trajectory of such players. The raw material cost of PG constitutes ~78.72 percent of its total operating income. The group's profitability is susceptible to gold price movements. PG also operates in a highly competitive and fragmented gems and jewellery industry and faces competition from a large number of organised as well as unorganised players that results in pressure on margins.

Liquidity position: Adequate

PG has adequate liquidity position marked by moderate net cash accruals vis-à-vis its maturing debt obligations. PG generated cash accruals of Rs.1.02 Cr. as on March 31, 2020 (Provisional) as against Rs.1.09 Cr. as on March 31, 2019 vis-à-vis maturing debt obligations of Rs.0.20 Cr. in FY2020 (Provisional) and in FY2019. While the cash accruals of PG is expected to decline in FY2021 due to the impact of Covid-19, the same are expected to be back to normal from FY2022. The fund based and non-fund based working capital facilities stands at ~95 percent for the 6 months period till October, 2020. The NCA/TD stood paltry at 0.09 times as on March 31, 2020 (Provisional) as against 0.10 times as on March 31, 2019. PG maintains unencumbered cash and bank balances of Rs.0.48 Cr. as on March 31, 2020 (Provisional).

Acuité believes the liquidity is expected to remain adequate in the near to medium. Howbeit, the working capital management in the near to medium term, will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

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

Material Covenants

None

Outlook: Stable

Acuité believes that PG will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the group registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the group registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	53.94	68.28
PAT	Rs. Cr.	0.37	0.41
PAT Margin	(%)	0.68	0.60
Total Debt/Tangible Net Worth	Times	0.91	0.90
PBDIT/Interest	Times	1.74	1.94

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
31-May-2019	Cash Credit	Long Term	10.50	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A4 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
30-Nov-2018	Cash Credit	Long Term	10.50	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A4 (Reaffirmed)
12-Sep-2017	Cash Credit	Long Term	10.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.50	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
Cash Credit	Not Applicable	9.70%	Not Applicable	10.50	ACUITE BB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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