

Press Release

Sheetal Manufacturing Company Private Limited

August 01, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 914.30 Cr.
Long Term Rating	ACUITE A+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A+**' (**read as ACUITE A plus**) to the Rs. 914.30 crore bank facilities of **SHETAL MANUFACTURING COMPANY PRIVATE LIMITED (SMCPL)**. The outlook is '**Stable**'.

SMCPL is engaged in the manufacturing and export of cut and polished diamonds (CPD). It has been promoted by Mr. Govindbhai Kakadia and his two brothers Mr. Vallabh Kakadia & Mr. Ravji Kakadia. Promoters have been in the business for more than four decades. SMCPL commenced its business in 1985 as a partnership firm and later in 2008, the constitution was changed to private limited company. The company's manufacturing facilities are located at Surat (Gujarat).

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of Sheetal Manufacturing Company Private Limited (SMCPL) along with its subsidiaries (Sheetal Golden Works India LLP & Sheetal Middle East DMCC) and step subsidiaries (Sheetal Far East Limited, Sheetal Group USA Inc. & Sheetal Europe BVBA) together referred to as the Sheetal Group. The consolidation is on account of significant business and financial alignment between these entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced promoters and established market position in the gems and jewellery industry**

The promoters of SMCPL started their business as a partnership firm Sheetal Manufacturing Company that was converted into private limited company in 2008. The company is engaged in manufacturing of cut and polished diamonds. The company is promoted by Mr. Govindbhai Kakadia and family. The promoters are well supported by second generation – Mr. Ajay Kakadia, Mr. Bharat Kakadia and Mr. Chirag Kakadia. The company's promoters have been in the diamond industry for more than four decades and have established position in the industry.

Sheetal Group has a global presence and is among one of the leading diamond players in India. They have a diversified customer base, based in USA, Europe, Hong Kong, Middle East among other countries. It is also designated as four star export house by the government of India.

Sheetal Group is a sight holder with leading miners such as De Beers, Rio Tinto & Alrosa which ensures steady supply of rough diamonds. Apart from the sights, the group also procures roughs from the market. Acuité believes that Sheetal group will benefit from its position as a sight holder giving the company a higher competitive advantage in terms of quality over the other players present in the diamond industry.

Acuité believes the group will continue to benefit from its established presence in the diamond industry, and the promoter's demonstrated ability to scale up the operations across various cycles.

- **Healthy financial risk profile**

The financial risk profile of the group is marked by healthy tangible net worth, comfortable debt protection measures and low gearing. The net worth of the company stood around Rs.940.27 crore (including quasi equity of Rs.77.92 crore) as on March 31, 2018 as against Rs.851.00 crore (including

quasi equity of Rs.77.92 crore) on March 31, 2017. The company has followed a conservative financial policy as reflected by gearing of 0.82 times as on 31 March 2018 (PY: 1.09 times). Total debt largely includes working capital borrowings of over Rs.1000 crores approx. (including debt of subsidiaries). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.98 times as on March 31, 2018 as against 1.32 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in healthy coverage indicators. Interest Coverage Ratio (ICR) stood at 3.90 times for FY2018 as against 3.95 times for FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on March 31, 2018.

Sheetal group's reliance on external borrowing has remained low throughout the year marked by its average bank limit utilisation of ~61 per cent for last six months ending April 2019. This is majorly on account of modest level of Gross Current Asset (GCA) of 191 days for FY2018 as against 175 days for FY2017. GCA days have remained in the range of 170 – 200 days in the last three years through 2017-2019 indicating efficient working capital management as compared to industry standards. The group's ability to efficiently manage its working capital will remain a key rating sensitivity factor due to decreasing reliance on external borrowings.

Acuité believes that the financial risk profile of SMCPL will continue to remain healthy over the medium to long term due to large scale of operations, sound debt protection measures, decreasing reliance on the external borrowings and stable profitability resulting in improvement in the coverage and debt protection indicators.

Weaknesses

- **Operating performance susceptible to discretionary consumer spending in key markets against intensely competitive backdrop**

SMCPL sells to overseas clients directly or through its subsidiaries, Sheetal Europe BVBA & Sheetal Group USA Inc. Demand for cut and polished diamonds is directly linked to discretionary spending by the clients. Revenues have dropped by 15 per cent from 5,02,572 USD in FY2017 to 4,85,543 USD in FY2018 due to subdued market demand.

Significant continued slowness in CPD market generally results in piling up of inventory or delays in realization of receivables due to challenges faced by the end customers. In such a situation, prudent players like SMCPL adopt cautious approach to growth to avoid any stress on the financial indicators.

The recent instances of delinquencies in the gems and jewellery sector has also impacted the approach of the lenders to this sector. Such events are likely to impact the future credit flow to the sector and the cost of credit.

The CPD segment has witnessed intense competition with presence of large and small players. Emergence of new substitutes like lab-grown diamonds is also likely to have a bearing on the demand for CPD's.

Acuité believes the ability to manage steady revenue growth while maintaining profitability and efficiently managing working capital cycle will be the key rating sensitivity factors.

Liquidity

Liquidity of SMCPL is efficiently managed as marked by gross current asset (GCA) days of 191 in FY 2018. This has led to moderate reliance on working capital borrowings. The working capital limits in the company remained utilized at around 61 percent over the last 6 months ended April 2019. The current ratio of the company stood moderate at 1.83 times as on March 31, 2018. Acuite believes that the liquidity of the company will remain comfortable over near to medium term on account of efficient working capital management.

Outlook: Stable

Acuité believes that SMCPL will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and established market position. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins while managing its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability or elongation in the working capital cycle leading to deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	3200.21	3743.69	3325.77
EBITDA	Rs. Cr.	145.29	176.86	146.15
PAT	Rs. Cr.	62.05	83.27	60.86
EBITDA Margin	(%)	4.54	4.72	4.39
PAT Margin	(%)	1.94	2.22	1.83
ROCE	(%)	7.47	9.63	16.24
Total Debt/Tangible Net Worth	Times	0.82	1.09	1.14
PBDIT/Interest	Times	3.90	3.95	3.29
Total Debt/PBDIT	Times	5.25	5.14	5.86
Gross Current Assets (Days)	Days	191	175	166

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
EPC / PCFC	Not Applicable	Not Applicable	Not Applicable	166.00	ACUITE A+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A+ / Stable (Assigned)
PSC	Not Applicable	Not Applicable	Not Applicable	169.00	ACUITE A+ / Stable (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A+ / Stable (Assigned)
PSC	Not Applicable	Not Applicable	Not Applicable	35.00*	ACUITE A+ / Stable (Assigned)
Bill Discounting / PCFC	Not Applicable	Not Applicable	Not Applicable	58.30	ACUITE A+ / Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	69.00^	ACUITE A+ / Stable (Assigned)
EPC / PCFC	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE A+ / Stable (Assigned)
PSC / PSCFC	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A+ / Stable (Assigned)
PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A+ / Stable (Assigned)

PSC	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A+ / Stable (Assigned)
PSC	Not Applicable	Not Applicable	Not Applicable	25.00#	ACUITE A+ / Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A+ / Stable (Assigned)
PCFC	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	104.00	ACUITE A+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A+ / Stable (Assigned)

*Sublimit of EPC/PCFC of Rs.17.50 crores.

^Sublimit of PC/PCFC of Rs.31.20 crores.

#Sublimit of PC/PCFC of Rs.20.00 crores.

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Rishabh Mundada Analyst - Rating Operations Tel: 022-49294051 rishabh.mundada@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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