

Press Release

Sheetal Manufacturing Company Private Limited

October 14, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	61.00	-	ACUITE A1 Assigned
Bank Loan Ratings	621.00	ACUITE A+ Stable Reaffirmed	-
Bank Loan Ratings	93.00	-	ACUITE A1 Reaffirmed
Bank Loan Ratings	95.00	ACUITE A+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	870.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE A+**' (read as **ACUITE Single A plus**) and the short-term rating of '**ACUITE A1**' (read as **ACUITE single A one**) on the Rs.870.00 Cr bank facilities of Sheetal Manufacturing Company Private Limited (SMCPL). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating reaffirmation factors in the improvement in operating performance of the Group in FY2022 marked by increase in operating income, stable operating margins and efficient working capital management, albeit moderate reliance on bank limits. The Sheetal Group generated a revenue of Rs. 4364.20 crores in FY2022 (provisional) as against Rs. 2088.60 crore in FY2021 registering a growth of 108 percent. The increase in revenue was mainly because of the increase in demand in the diamond industry post the pandemic and the Group's increased focus on digital sales. The operating margin of the group stood at 5.70% in FY2022 (provisional) as against 4.89% in FY2021. The improvement in margins is driven by improvement in internal business operations through process automation and efficient procurement on account of healthy relations with the suppliers. The PAT margin of the group stood at 5.03% in FY2022 (provisional) as against 3.01% in FY2021. The financial risk profile of the Group continues to remain healthy marked by healthy net worth, low gearing and comfortable debt protection metrics.

About the Company

Sheetal Manufacturing Company Private Limited (SMCPL) is a part of the Mumbai-based larger Sheetal Group (SG, including SMCPL and its subsidiaries) which was established in 1985 by the first-generation entrepreneurs, Mr. Govind Kakadia and his two brothers - Mr. Vallabh

Kakadia and Mr. Ravji Kakadia. The company is engaged in the manufacturing and export of cut & polished diamonds (CPD). It is a designated four-star export house status by the Government of India.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of SMCPL and its subsidiaries and step-down subsidiaries, on account of common line of business, common management and significant operational and financial linkages between the entities. Apart from SMCPL, the companies taken into consolidation are: Sheetal Golden Works (India) LLP (SGW) (99.97% by SMCPL), Sheetal Group USA Inc. (100% by SGW), Sheetal (Far East) Limited (SFE) (100% by SGW), Hillier Diamond (Shanghai) Co. Limited (100% by SFE), Sheetal Middle East DMCC (48.67% by SFE and 51.33% by SMCPL), and Sheetal Europe BV (89.61% by SGW and 10.04% by SMCPL).

Extent of consolidation: Full.

Key Rating Drivers

Strengths

Extensive experience of promoters and long track record of operations

SG, engaged mainly into manufacturing & exports of cut & polished diamonds, 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, etc. among other countries. It is also designated as four-star export house by the Government of India. This has been facilitated by the extensive experience of promoter of the group, Mr. Govind Kakadia, who has an experience of more than 5 decades into this business segment. The promoter is well supported by the second generation in the family – Mr. Ajay Kakadia, Mr. Bharat Kakadia and Mr. Chirag Kakadia.

Acuité believes that the extensive experience of the management and established global presence will strengthen the business risk profile over the medium term.

Long-standing relationship with reputed diamond mining companies in the world

SG has a long-term association with major diamond companies viz. De Beers, Rio Tinto and Alrosa for sourcing of rough diamonds. Such contracts with key suppliers like them allow a steady supply at competitive rates. Diamond Trading Company (DTC), the marketing arm of De Beers, sells rough diamonds only to an exclusive group of manufacturers throughout the world called sight-holders. The status of being a sight-holder with these mining companies lend significant comfort to the sourcing arrangements of SG whereby they procure rough diamonds as per fixed-term contracts with DTC that also assures uninterrupted supply at competitive pricing rather than sourcing from secondary markets. In view of the ongoing war and sanctions against Russia, SG has gradually reduced its procurements from Alrosa.

Acuité believes that SG will benefit from its position as a sight-holder giving the Group a higher competitive advantage in terms of quality over the other players present in the diamond industry.

Established distribution network and presence in major global markets

In the international market, SG has a strong distribution and procurement network through its step-down subsidiaries in key consuming markets viz. Hong Kong, USA, Belgium, Middle East, and Shanghai. Further, the Group has launched an online application in February 2015, which marked its entry into the e-commerce trading space. This mobile-based application helps in assisting customers and clients to place their orders as per their requirement from the ready inventory of stock available online, after inspecting the product based on different grading scales, certificates in the industry and price bands, without having to travel to the Group's office. The digital sales contribute to 40 to 50 percent of the total sales. Further, during the

year, SG has set up a manufacturing unit in Botswana, under stepdown subsidiary company of Sheetal Golden Works (India) LLP.

Healthy Financial Risk Profile

Sheetal Group has healthy financial risk profile marked by tangible net worth of Rs.1166.87 crore as on 31 March, 2022 (provisional) as against Rs.971.51 crore as on 31 March, 2021. The gearing level of the Group remained low at 0.55 times as on 31 March, 2022 (provisional) as against 0.73 times as on 31 March, 2021. The adjusted gearing level stood at 0.62 times as on 31 March, 2022 (provisional) against 0.57 times same period last year. The total debt outstanding of Rs.854.18 crore consists of working capital borrowings of Rs.727.50 crore, unsecured loan from promoters of Rs.126.68 crore and no term loan obligations as on 31 March, 2022(provisional).

The coverage ratios of the group remained healthy with Interest Coverage Ratio (ICR) of 14.88 times for FY2022 (provisional) against 4.44 times for FY2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.27 times for FY2022 (provisional) as against 0.10 times for FY21. The total outside liabilities to tangible net worth (TOL/TNW) of the group stood at 1.07 times as on March 31, 2022 (provisional) against 0.99 times as on March 31, 2021.

Acuité expects the financial risk profile to remain healthy over the medium term on account of large scale of operations, comfortable debt protection measures and moderate reliance on the external borrowings resulting in stable debt protection measures

Weaknesses

Working Capital Intensive Nature of Operations

The operations of the Group are working capital-intensive in nature marked by Gross Current Asset days of 177 days for FY2022(provisional) as against 296 days for FY2021. The improvement in GCA days is on account moderated inventory and debtor levels. The inventory days of the Group stood at 122 days for FY2022 (provisional) as against 185 days for FY2021 and the debtor days reduced to 46 days for FY2022 (provisional) as against 89 days for FY2021. The creditor days stood at 32 days for FY2022 (provisional) as against 47 days for FY2021. The Group's reliance on working capital borrowings is moderate, marked by average utilization of working capital limits of ~77.70 percent during the ten months period ended June' 2022.

Susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk

Due to high inventory holding period, the Group runs an inherent risk of volatility in raw material prices. The Group imports 79 percent of its raw material requirement i.e. rough diamonds and exports around 57 percent of its total sales. While the forex risk on exports is largely covered against imports, the price volatility risk in rough diamond threatens the thin profitability margins of the Group due to long working capital cycles.

ESG Factors Relevant for Rating

The gems and jewellery industry and particularly the cut and polished diamond segment plays an important role in generating employment particularly in India. While employment is material from the social perspective, the sector needs to ensure a healthy and safe working environment for its employees. On the governance aspect, ethical business practices and adherence to appropriate accounting norms including arms-length accounting with overseas group entities are important for the sustainability of the business and enjoying the confidence of the stakeholders including the lenders. Although the environmental factors are not highly material, the industry has to be vigilant that the mining of the raw materials do not damage the environment in a significant manner. SMCPL has taken some initiatives to make its business sustainable and compatible with the generally accepted ESG norms. The company's business operations abide by a code of practices outlined by the Responsible Jewellery Council (RJC). These practices address issues such as human rights, labour rights, environmental impact, mining operations and product disclosure. On the social front, SMCPL

had undertaken a special vaccination drive at its manufacturing facility in Surat last year to safeguard its employees from the pandemic. This apart, the company is involved in several CSR activities which includes investment in education and healthcare. The company also provides support to people in rural areas to make their livelihoods and activities environmentally sustainable

Rating Sensitivities

- Deterioration in the operating performance
- Elongation in working capital cycle leading to liquidity constraints

Material covenants

None

Liquidity Position: Adequate

Sheetal Group has adequate liquidity position, supported by adequate net cash accruals against maturing debt obligations and healthy cash and bank balances and liquid investments. The Group generated cash accruals of Rs.229.93 crore in FY2022 (provisional) against no maturing debt obligations and held cash and bank balance of Rs.79.98 crore and liquid investments of Rs.23.08 Cr as on March 31, 2022 (provisional). The cash accruals of the Group are estimated to remain around Rs.245-282 crore during FY2023-25 period against negligible maturing debt obligations for the same period. The GCA days of the Group stood at 177 days as on March 31, 2022 (Prov.). The Group's reliance on working capital borrowings is moderate, marked by average utilization of working capital limits of ~77.70 percent during the ten months period ended June' 2022. The current ratio of the Group stood at 1.87 times as on March 31, 2022 (provisional). Acuité believes the liquidity profile is expected to remain adequate over the medium term owing to sufficient available liquid funds and adequate cash accruals against maturing debt obligations.

Outlook: Stable

Acuité believes that SMCPL will maintain a 'Stable' outlook led by the Group's established position in cut and polished industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case the Group reports higher than expected growth in revenue and significant improvement in the profitability while maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of a deterioration in the revenue growth and operating performance, thereby impacting its overall financial risk profile and the overall liquidity position.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	4364.20	2088.60
PAT	Rs. Cr.	219.32	62.88
PAT Margin	(%)	5.03	3.01
Total Debt/Tangible Net Worth	Times	0.73	0.73
PBDIT/Interest	Times	14.88	4.44

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jan 2022	Post Shipment Credit	Long Term	133.00	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Long Term	24.00	ACUITE A+ Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	14.00	ACUITE A1 (Reaffirmed)
	Standby Line of Credit	Long Term	62.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	44.12	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	60.00	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	65.00	ACUITE A1 (Reaffirmed)
	Post Shipment Credit	Long Term	22.88	ACUITE A+ Stable (Reaffirmed)
	Standby Line of Credit	Long Term	97.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	132.00	ACUITE A+ Stable (Reaffirmed)
	Bills Discounting	Long Term	60.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	22.88	ACUITE A+ Negative (Reaffirmed)
05 Oct 2020	Packing Credit	Long Term	19.00	ACUITE A+ Negative (Reaffirmed)
	Letter of Credit	Long Term	104.00	ACUITE A+ Negative (Reaffirmed)
	Bills Discounting	Short Term	15.00	ACUITE A1 (Assigned)
	Bills Discounting	Long Term	69.00	ACUITE A+ Negative (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE A+ (Withdrawn)
	Packing Credit	Long Term	44.12	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Long Term	132.00	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A1 (Assigned)
	Letter of Credit	Long Term	70.00	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Long Term	133.00	ACUITE A+ Negative (Reaffirmed)

	Proposed Bank Facility	Short Term	11.00	ACUITE A1 (Assigned)
	Bills Discounting	Long Term	25.00	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Long Term	4.00	ACUITE A+ (Withdrawn)
	Packing Credit	Long Term	20.00	ACUITE A+ Negative (Reaffirmed)
		Long		
	Proposed Bank Facility	Term	11.00	ACUITE A+ (Withdrawn)
	Packing Credit	Long Term	24.00	ACUITE A+ Negative (Reaffirmed)
01 Aug 2019	Letter of Credit	Long Term	70.00	ACUITE A+ Stable (Assigned)
	Bills Discounting	Long Term	69.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	54.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	4.00	ACUITE A+ Stable (Assigned)
	Bills Discounting	Long Term	25.00	ACUITE A+ Stable (Assigned)
	Letter of Credit	Long Term	104.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	45.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	28.00	ACUITE A+ Stable (Assigned)
	Bills Discounting	Long Term	58.30	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	35.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	166.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	25.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	169.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	25.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	26.00	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Long Term	11.00	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A+ Stable Reaffirmed
Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	44.12	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	132.00	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	89.00	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	119.00	ACUITE A+ Stable Reaffirmed
Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	22.88	ACUITE A+ Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A+ Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A1 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A1 Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE A+ Stable Reaffirmed

Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A+ Stable Assigned
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About Acuité Ratings & Research

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