



Press Release
SHEETAL MANUFACTURING COMPANY PRIVATE LIMITED
January 12, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	716.00	ACUITE A+ Stable Reaffirmed	-
Bank Loan Ratings	154.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	870.00	-	-

Rating Rationale

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

Reason for reaffirmation

The rating reaffirmation takes into account the improvement in the operating income of the group in FY23 albeit slight moderation expected in the operating income in FY24. As per GJEPC reports, the Cut and Polished Industry recorded a decline of 9.78% YOY between FY2023 and FY2022 in its total exports. Contrary to the industry trend, the group's revenues have shown an improvement and stood at Rs.5509.24 crore in FY2023 as against the revenue of Rs.4335.13 crore in FY2022. Although there was a marginal decline in the quantity sold, there was a higher price realization for the products. Further the CPD industry recorded a decline of 29.37% in 7MFY2024 as against same period last year. The company has achieved revenue of Rs. 3288.11 crore in 9MFY2024 and is estimated to close the year in the range Rs.4300-5000 crore. The operating margins stood at 6.81 percent in FY2023 as against 7.39 percent in FY2022. Further, the margins stood at 6.91 percent in 9MFY24. The rating continues to factor in the healthy financial risk profile of the group with healthy net worth, low gearing, and comfortable debt protection metrics. Going forward, the group's ability to improve its operating performance while maintaining its capital structure and working capital cycle will remain a key rating monitorable.

About 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.

About the Group

Sheetal Group was established in 1985 and is engaged in the manufacturing and export of cut & polished diamonds (CPD). The group is managed by the Kakadia family and are supported by seasoned professionals.

None

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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).

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.

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.

Healthy financial risk profile

The tangible net worth of the company stood at Rs.1551.83 crore as on March 31, 2023, as against Rs.1298.63 crore as on March 31, 2022. The gearing of the company stood at 0.52 times as on March 31, 2023, as against 0.56 times as on March 31, 2022. The total debt of the company consists of short-term debt of Rs.786.51 crore, and unsecured loan of Rs.26.77 crore as on March 31, 2023. The interest coverage ratio stood at 7.20 times as on March 31, 2023, as against 9.01 times as on March 31, 2022. The DSCR stood at 6.06 times as on March 31, 2023, as against 7.36 times as on March 31, 2022. Acuité believes that the financial risk profile of the group is likely to remain healthy over the medium term.

Weaknesses

Working Capital Intensive Nature of Operations

The company's operations are intensive as evident from the GCA days of 156 days as on March 31, 2023, as against GCA days of 179 days as on March 31, 2022. The inventory days stood at 94 days for FY23 as against 125 days for FY22. Average inventory holding period is

around 90 days. The debtors' days stood at 45 days for FY23 as against 48 days for FY22. The average credit period allowed to the customers is around 60 days. The creditors days stood at 16 days for FY23 against 34 days for FY22. The average credit period received from the supplier is around 45 days. The average utilization of the bank limits is moderate at around 82 percent for six months ending November '2023. Acuité believes that the ability of the group to improve its working capital management will remain key rating sensitivity in medium term.

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. Also since the group is into export sales, there is a risk of foreign currency fluctuations. 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

Improvement in the operating income while maintaining the margins
Elongation in working capital cycle leading to liquidity constraints
Any deterioration in the financial risk profile

Liquidity position: Adequate

The company has an adequate liquidity position marked by moderate net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.272.47 crore in FY23 as against nil maturing debt obligations over the same period. The company is estimated to generate cash accruals of Rs.220.36-259.21 crore over the period 2024-2025 against nil maturing debt obligations over the same period. The company maintains unencumbered cash and bank balance of Rs.22.75 crore as on March 31, 2023. The current ratio stood at 2.24 times as on March 31, 2023. 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:

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	5509.24	4335.13
PAT	Rs. Cr.	257.10	218.01
PAT Margin	(%)	4.67	5.03
Total Debt/Tangible Net Worth	Times	0.52	0.56
PBDIT/Interest	Times	7.20	9.01

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Oct 2022	Proposed Bank Facility	Short Term	26.00	ACUITE A1 (Assigned)
	Standby Line of Credit	Long Term	62.00	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	35.00	ACUITE A1 (Assigned)
	Post Shipment Credit	Long Term	119.00	ACUITE A+ Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	28.00	ACUITE A1 (Reaffirmed)
	Standby Line of Credit	Long Term	97.00	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Long Term	22.88	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	65.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Long Term	89.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	60.00	ACUITE A+ Stable (Reaffirmed)
	Bills Discounting	Long Term	60.00	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Long Term	24.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	132.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	44.12	ACUITE A+ Stable (Reaffirmed)
	Standby Line of Credit	Long Term	6.00	ACUITE A+ Stable (Assigned)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A+ Stable Reaffirmed
Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	44.12	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	221.00	ACUITE A+ Stable Reaffirmed
Yes Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	119.00	ACUITE A+ Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE A+ Stable Reaffirmed
Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.88	ACUITE A+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	54.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	97.00	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	68.00	ACUITE A+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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