

Press Release

Impex Diamonds

August 08, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 40.00 Cr.
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 40.00 crore bank facilities of IMPEX DIAMONDS (IMPEX).

Incorporated in 1974, IMPEX is a partnership firm promoted by the Barmecha family led by Mr. Bhavesh Barmecha and Mrs. Prem Barmecha. The firm is engaged in the cutting, polishing and trading of diamonds with manufacturing facilities located at Surat and Dahisar. Their customers are present in Hong Kong, Sri Lanka, United States, and Middle East among many other regions. Their suppliers are primarily from Belgium and Israel. The job work for cutting and processing is with S. V. Diamonds and V. V. Diamonds, two sister concerns with the same management.

Analytical Approach

Acuite has considered standalone business and financial risk profile of IMPEX to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The firm is promoted by Mr. Shantilal Barmecha who has been in the industry for more than four decades. He is supported by second line of management, Mr. Bhavesh Barmecha and Mrs. Prem Barmecha, who have been in the business for more than two decades. Their diamond cuts include Baguettes, Princess, Round and few other special cuts. Acuite believes that the firm will continue to benefit from its experienced management and help maintain long standing relations with its customers and suppliers.

- **Improvement in working capital management**

The working capital management of IMPEX has improved in FY2018 over FY2017 backed by improvement in Gross Current Assets (GCA) to 220 days for FY2018 from 260 days for FY2017. The improvement in GCA is due to the decrease in both inventory days and debtor days. Inventory days reduced to 125 days for FY2018 as against 160 days for FY2017. Debtor days reduced to 100 days for FY2018 as against 109 days for FY2017. Acuite believes that efficient working capital management will be a crucial rating sensitivity factor.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of IMPEX is moderate marked by moderate net worth, low debt protection metrics and below average leverage ratios. The tangible net worth of the firm stood at Rs. 15.57 crore as on 31 March, 2018 as against Rs. 13.97 crore as on 31 March, 2017. Gearing (debt-equity) stood below average at 2.44 times as on 31 March, 2018 as against 2.70 times in the previous year. The total debt of the firm as on 31 March, 2018 stood at Rs. 37.96 crore, comprising of unsecured loans of Rs. 6.97 crore and working capital limits of Rs. 31.00 crore. The coverage indicators stood low marked by interest coverage ratio (ICR) of the firm at 1.86 times in FY2018 and debt service coverage ratio (DSCR) at 1.62 times in FY2018. Total outside liabilities to tangible net worth stood high at 5.73 times as on 31 March, 2018 as against 4.78 times in the previous year. Acuite believes that the financial risk profile of the firm will remain below average in near to medium term owing to high debt levels and declining operating profitability.

Declining level of profitability

The operating margins and net profit margins for the firm have decreased in the past three years. Operating margin decreased to 4.85 per cent for FY2018 from 7.02 per cent for FY2017. Similarly, net profit margins decreased to 1.17 times for FY2018 from 1.52 times for FY2017. The decrease in revenues has been attributed to a general slowdown in markets, increasing labor costs and higher procurement costs. Acuite believes that the firm will have to maintain a stable growth in profitability in order to maintain a stable credit risk profile.

Liquidity Position:

The firm has stretched liquidity profile marked by moderate net cash accruals against its repayment obligations. Net Cash Accruals have improved to Rs. 2.75 crore for FY2018 from Rs. 2.59 crore for FY2017. The cash accruals of the firm are estimated to remain around Rs. 2.00 – 2.40 crore while its repayment obligation is estimated to be around Rs. 3.60 – 4.20 crore from FY2019-21. The firm’s operations are working capital intensive marked by Gross Current Asset (GCA) days of 220 in FY2018. The firm had unencumbered cash and bank balance of Rs. 0.47 crore as on 31 March, 2018. The current ratio of the firm stood comfortable at 1.21 times as on 31 March, 2018. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of moderate cash flows as compared to repayment obligations over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	160.95	102.29	88.06
EBITDA	Rs. Cr.	7.81	7.18	6.96
PAT	Rs. Cr.	1.89	1.55	0.77
EBITDA Margin	(%)	4.85	7.02	7.90
PAT Margin	(%)	1.17	1.52	0.87
ROCE	(%)	14.09	12.72	22.86
Total Debt/Tangible Net Worth	Times	2.44	2.70	3.83
PBDIT/Interest	Times	1.86	1.85	1.53
Total Debt/PBDIT	Times	4.59	4.95	5.66
Gross Current Assets (Days)	Days	220	260	308

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-17.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>

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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+

Contacts

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About Acuité Ratings & Research:

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