Press Release

Mkm Diamonds Private Limited

October 16, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 102.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 102.00 crore bank facilities of MKM DIAMONDS PRIVATE LIMITED (MDPL). The outlook is **'Stable'**.

Earlier known as Eurostar Diamonds India Private Limited, MDPL was incorporated in 2009. It is a Mumbai-based company engaged in manufacturing and trading of cut and polished diamonds. The company is promoted by Mr. Paresh Kirtilal Mehta and Mr. Paras Paresh Mehta. The company is wholly-owned subsidiary of Paresh K Mehta Investments Private Limited.

Analytical Approach

Acuité has considered standalone business and financial risk profile of MDPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  MDPL was incorporated in 2009. The company has an established track record with a decade of operations in Mumbai. The key promoter, Mr. Paresh Kirtilal Mehta, has been associated with the gems and jewellery industry for more than four decades and is ably assisted by an experienced second line of management. Before promoting MDPL, the promoter held an experience of nearly three decades in the aforementioned industry through Kirtilal Kalidas Jewellers Private Limited. Currently, the day-to-day operations of the company are managed by Mr. Paras Mehta, who has experience of more than a decade in this industry. Acuité believes that the company 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 company is marked by healthy tangible net worth, comfortable debt protection measures and low gearing. The net worth of the company stood around Rs.125.47 crore as on March 31, 2019 as against Rs.104.44 crore on March 31, 2018. The tangible networth levels have seen significant improvement over the last three years through FY 2017-19 on account of equity infusion of Rs. ~50.40 crore by the promoters and accretion to reserves during the same period.

  The company has followed a conservative financial policy as reflected by gearing of 0.53 times as on 31 March, 2019 (PY: 1.79 times). Total debt of Rs. 67.10 crore largely includes working capital borrowings of over Rs. 65.06 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.18 times as on March 31, 2019 as against 2.66 times as on 31 March, 2018. Improvement in revenue levels coupled with stable operating margins have resulted in moderate coverage indicators. Interest Coverage Ratio (ICR) stood at 2.19 times for FY2019 as against 1.59 times for FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on March 31, 2019.

  MDPL's reliance on external borrowing has moderate throughout the year marked by its average bank limit utilisation of ~75-80 per cent for last six months ending July, 2019. This is majorly on account of modest level of Gross Current Asset (GCA) of 183 days for FY2019 as against 345 days for FY2018.

  Acuité believes that the financial risk profile of MDPL will continue to remain healthy over the medium to long term due to infusion of capital, sound debt protection measures and improvement in working capital operations.

Weaknesses

- **Customer concentration risk**

  The company faces high customer concentration risk. Its top 3 customer accounts for ~60 per cent of its sales in the last three years period ended FY2019. The customer concentration risk has led to moderation in operations marked by operating income of Rs. 366.30 crore for FY2019 as against Rs. 305.67 crore in FY2017. Hence, the high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

- **Intense competition from players in the organised and unorganised sector**

  The gems & jewellery (G&J) industry is characterised by a large number of organised and unorganised players and intense competition resulting in pressure on margins. The demand for cut and polished diamonds (CPD) is directly linked to discretionary spending by the clients. 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.

  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 such as lab-grown diamonds is also likely to have a bearing on the demand for CPD's.

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

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 230-270 days.
- Substantial improvement in scale of operation (~Rs.420.00-450.00 crores), while maintaining profitability margin of around 6.50-7.50 per cent over the medium term.

Material Covenants

None

Liquidity Position: Adequate

MDPL has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 9.19 crore – Rs. 15.08 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs. 0.30-7.27 crore over the same period. The cash accruals are estimated to improve to Rs. 11.00 - 14.6 crores during 2020- 22, while its repayment obligations are expected to be nil. The company maintains cash and bank balances of Rs. 4.07 crore as on March 31, 2019. The current ratio stood moderate at 1.29 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that MDPL will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and healthy financial risk profile. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	366.30	305.67	453.47
EBITDA	Rs. Cr.	18.66	19.96	30.32
PAT	Rs. Cr.	3.31	4.43	7.74
EBITDA Margin	(%)	5.09	6.53	6.69
PAT Margin	(%)	0.90	1.45	1.71
ROCE	(%)	5.30	4.66	16.28
Total Debt/Tangible Net Worth	Times	0.53	1.79	3.19
PBDIT/Interest	Times	2.21	1.61	2.67
Total Debt/PBDIT	Times	3.56	9.31	6.96
Gross Current Assets (Days)	Days	183	345	280

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

Brickwork, vide its press release dated March 09, 2018 had denoted the rating of MKM Diamonds Private Limited (Formerly known as Eurostar Diamond India Private Limited) as 'BWR BBB/Stable/BWR A3; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not applicable

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
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	22.00*	ACUITE BBB- /Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00^	ACUITE BBB- /Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	40.00#	ACUITE BBB- /Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00@	ACUITE BBB- /Stable

**Sublimit – Packing Credit of Rs.22.00 crore of Bill Discounting*
^One-way interchangeability of Pre-shipment EPC/PCFC limit to Post shipment to the extent of 100%
#One-way interchangeability between PC/PCFC and FBN/P/EBD permitted not vice versa
@ Sublimit – EBR/FUBP/FBP of Rs.15.00 crore of Packing Credit

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