Press Release

Mkm Diamonds Private Limited

February 17, 2021

Rating Reaffirmed and Outlook Revised; Withdrawn

Total Bank Facilities Rated*	Rs. 22.00 Cr. (Reduced from Rs. 102.00 Cr.)
Long Term Rating	ACUITE BBB-/Outlook: Negative (Reaffirmed and Outlook Revised; Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 22.00 crore (reduced from Rs. 102.00 crore) bank facilities of MKM Diamonds Private Limited (MDPL). The outlook is revised to **'Negative'** from **'Stable'**.

Further, Acuité has also withdrawn previously rated long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** for bank facilities of Rs. 80.00 crore. The withdrawal is on account of the request received from the client along with No Objection Certificate (NOC) received from the bankers in accordance with Acuite's withdrawal policy.

Revision in Outlook

The revision in rating outlook is on account of decline in operating performance, profitability and elongation in working capital cycle. Further, operating performance and profitability of MDPL is expected to remain impacted in FY2021 due to pandemic disruptions coupled with limited working capital limits to continue manufacturing activities. In the event of prolonged economic slowdown, there could be impact on demand in domestic as well as exporting countries across the globe where MDPL has clients, adversely impacting operating and financial performance of company.

However, ratings reaffirmation is driven by overall reduction in debt levels, promoter's extensive experience in industry, short term liquidity available from sale of assets and expected improvement in coverage indicators. Acuité, expects company to demonstrate improvement in operating performance along with profitability margins on back of normalcy in manufacturing actives. Also, timely realisation of receivables and reduction in overall working capital cycle will remain key deliverable.

The operating income declined by 3.51 percent Y-o-Y stood at Rs 353.43 crores in FY2020 as compared to Rs. 366.30 crore in FY2019. The decline in operating income is due to nationwide lockdown and lower manufacturing/processing activities undertaken by MDPL. The company has achieved revenue of Rs. 126.91 crores as on December, 2020. The operating margins have significantly declined to 1.80 percent in FY2020 as against 5.09 percent in FY2019 and 6.53 percent in FY2018. Further, company has reported net loss of Rs. 1.93 crores in FY2020 as against net profit of Rs. 3.31 crores in FY2019. The margins have been impacted due to higher trading activities undertaken due to limited availability of working capital limits. Further, elongation in working capital cycle is marked by increased Gross Current Assets (GCA) days to 234 days in FY2020 as compared to 183 days in FY2019.

About Company

MKM Diamonds Private Limited (Formally known as Eurostar Diamonds India Private Limited) is based of Mumbai and was incorporated in 2009. MDPL is a wholly owned subsidiary of Paresh K. Mehta Investment Private Limited. The company is engaged in manufacturing and trading of cut and polished diamonds. MDPL is specialised in providing precisely calibrated diamonds to prestigious watch and jewellery brands. The key promoter, Mr. Paresh Kirtilal Mehta, has been associated with the gems and jewellery industry for more than four decades.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and establish track record of operation**

  MDPL was incorporated in 2009, has established track record of over a decade of operations in the industry. 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 had 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.

- **Moderate Financial risk profile**

  The financial risk profile continues to remain moderate marked by healthy net worth, low gearing and moderate debt protection measures. The tangible net worth stood at Rs. 122.96 crores as on 31 March 2020 as against Rs. 125.47 crore as on 31 March, 2019 and Rs. 104.44 crore as on 31 March, 2018. The decline in net worth is due to losses incurred in FY2020. The gearing stood low at 0.45 times as on 31 march 2020 as against 0.53 times as on 31 March, 2019 and 1.79 times as on 31 March, 2018. The total borrowings of Rs. 55.46 crore as on 31 March, 2020 comprises of short term borrowings of Rs 44.52 crores and unsecured loan of Rs. 10.94 crores. The net cash accruals stood at Rs. 3.24 crore for FY2020 as against no long term debt repayment obligation. The interest coverage ratio (ICR) stood moderate at 1.67 times in FY2020 as against 2.21 times in FY2019 and 1.61 times in FY2018. The total outside liabilities to tangible net worth stood at 1.54 times as on 31 March 2020 as against 1.18 times as on 31 March, 2019. Acuité believes that the financial risk profile of MDPL will continue to remain moderate over the medium to long term due to regular accretion to reserves and expected improvement in working capital cycle.

Weaknesses

- **Decline in revenues and margins, elongation in working capital cycle**

  The operating income of MDPL declined by 3.51 percent Y-o-Y stood at Rs 353.43 crores in FY2020 as compared to Rs. 366.30 crore in FY2019. The company has achieved revenue of Rs. 126.91 crores as on December 31, 2020. The operations of the company were severely impacted due to lockdown imposed during the pandemic. The operations were normalized and improvement was seen from Q3FY2021. Also, operating margins significantly declined to 1.80 percent in FY2020 as against 5.09 percent in FY2019. The company has reported net loss of Rs. 1.93 crores in FY2020 as against net profit of Rs. 3.31 crores in FY2019. The margins have were impacted due to higher trading carried out which stood at 75-80 percent in FY2020 as against 45-50 percent in FY2019 and FY2018. Also, there was reduction of limits from banks during FY2020 due to change in internal policy and reduced exposure to gems and jewellery segment. Due, to unavailability of sufficient working capital Limits, company had to forgo manufacturing (processing of diamonds) activities in FY2020. In FY2021, company has undertaken 90 percent of trading, reduced overall debt levels, sold fixed assets to maintain adequate liquidity and manage working capital requirements. The company is focusing on revamping processing of diamonds and expect to normalize operations in upcoming year.

  Further, Gross Current Asset (GCA) days stood elongation at 234 days for FY2020 as against 183 days for FY2019. MDPL's reliance on external borrowing has remained moderate throughout the year marked by its average bank limit utilisation of ~75-80 per cent for last trailing six months ending December, 2020.

- **Intense competition from players in industry, Impact of Pandemic, and economic slowdown**

  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. Also, in the event of prolonged economic slowdown, there could be slowdown in retail spending by the consumers which is likely to impacted demand in this sector. 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.

Liquidity Position: Adequate

The company maintains adequate liquidity position marked by net cash accruals of Rs. 3.25 to 11.00 crore for last three years ending FY2020 against no major long term debt repayment over the same period. The current ratio of the company stood at 1.29 times as on March 31, 2020. NCA/TD stood at 0.06 times as on 31st March, 2020 and 0.14 times in the previous year. The company maintains unencumbered cash and bank balances of Rs. 0.67 crore as on March 31, 2020. Further, Gross Current Asset (GCA) days stood elongation at 234 days for FY2020 as against 183 days for FY2019. MDPL's reliance on external borrowing has remained moderate throughout the year marked by its average bank limit utilisation of ~75-80 per cent for last trailing six months ending December, 2020.

Rating Sensitivities

- Deterioration in operations performance and decline in margins
- Any further stretch in working capital cycle
- Deterioration in financial risk profile and coverage indicators

Outlook: Negative

Acuité has revised the outlook to 'Negative' from 'Stable' on account of continuous deterioration in the business risk profile and profitability of the company. Further, significant elongation in receivables and limited availability of working capital to manage operations in a smooth manner remains key sensitivity. Also, the business and financial risk profile of the company is expected to be impacted on account of discretionary spending pattern and challenges faced on supply and demand side due to outbreak of COVID - 19 followed by lockdowns across the globe. The rating may be further downgraded in case of continued moderation in liquidity profile and higher than expected decline in operating performance, leading to further deterioration in debt protection indicators as well as elongation in working capital cycle. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant improvement in operating performance duly supported by the unwinding of growing receivables, infusion of equity, improvement in the working capital cycle and operating margins.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	353.43	366.30
PAT	Rs. Cr.	-1.93	3.31
PAT Margin	(%)	-0.55	0.90
Total Debt/Tangible Net Worth	Times	0.45	0.53
PBDIT/Interest	Times	1.67	2.21

Any other information

Not Applicable

Any Material Covenants

None

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

Brickworks Ratings vide its press release dated 26 Mar 2020, has categorized ratings of MKM Diamonds Pvt. Ltd. (Formerly Known as Eurostar Diamonds India Pvt Ltd.) to 'BWR BB+/Stable/BWR A4+'; Issuer Not Cooperating with downgrade.

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
• 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 (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Oct-2019	PC/PCFC	Long Term	40.00#	ACUITE BBB-/Stable (Assigned)
	Bills Discounting	Long Term	22.00*	ACUITE BBB-/Stable (Assigned)
	PC/PCFC	Long Term	15.00@	ACUITE BBB-/Stable (Assigned)
	PC/PCFC	Long Term	25.00^	ACUITE BBB-/Stable (Assigned)

**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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	40.00#	ACUITE BBB- (Withdrawn)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	22.00*	ACUITE BBB-/Negative (Reaffirmed and Outlook Revised)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00@	ACUITE BBB- (Withdrawn)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00^	ACUITE BBB- (Withdrawn)

**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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,563 credit 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 Mumbai.