



Press Release
Mkm Diamonds Private Limited
May 10, 2022
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.00	ACUITE BBB- Stable Reaffirmed Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	22.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

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

Rationale for revision in the outlook:

The revision in the outlook is on account of long track record of operations & experienced management along with improvement in the revenues & margins in FY2022 & further expected improvement in the revenues & margins going forward due to increase in demand. Further, it factors in the moderate financial risk profile in FY2022 marked by low gearing & moderate debt protection metrics and adequate liquidity position in FY2022.

About the Company

MKM Diamonds Private Limited (MDPL) (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 K. Mehta and Mr. Paras P. Mehta, has been associated with the gems and jewellery industry for more than four decades.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of MDPL to arrive at the rating.

Key Rating Drivers

Strengths

>Experienced management and established track record of operations

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. This is reflected through improvement in revenues in FY2022, which stood at Rs.329.08 crore against

Rs.198.86 crore for FY2021, majorly due to increase in demand and repeated orders from customers.

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

Financial risk profile of MDPL is moderate marked by low gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), modest net worth and moderate debt protection metrics. The gearing stood at 0.17 times as on March 31, 2021 against 0.45 times as on March 31, 2020. TOL/TNW stood at 0.61 times as on March 31, 2021 against 1.54 times as on March 31, 2020. However, Tangible net worth of the company reduced to Rs.113.78 crore as on March 31, 2021 against Rs.122.96 crore as on March 31, 2020. The decrease in net worth is majorly due to the losses faced by the company in FY2021. Of the total debt of Rs.19.37 crore as on March 31, 2021, long-term debt stood at Rs.4.06 crore and short-term debt stood at Rs.15.31 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood negative at (0.77) times and (0.28) times respectively in FY2021; while DSCR stood at (1.03) times in FY2021. However, the debt protection metrics has improved in FY2022 marked by interest coverage ratio and DSCR stood moderate at 2.82 times and 2.56 times respectively in FY2022 (Est.).

Acuité believes that the financial risk profile of the firm is expected to improve over the medium term driven by reduction in overall debt levels and in the absence of any major debt funded capex in near to medium term.

Weaknesses

>Working capital intensive operations

MDPL's working capital operations are intensive marked by high inventory days due to impact of Covid-19. However, there are no dead stock or cancelled orders. Gross Current Asset days (GCA) stood at 265 days in FY2021 as against 234 days in FY2020. The inventory days stood at 201 days in FY2021 against 138 days in FY2020. The company maintains an inventory holding policy of 2 months. The debtors' days improved and stood at 44 days in FY2021 against 93 days in FY2020 which is corresponding to normal terms with the customers. The credit period given to customers is upto 150 days. The creditors' days also improved and stood at 69 days in FY2021 against 138 days in FY2020 which is also corresponding to normal terms with the suppliers. The company enjoys a credit period of around 150 days from their suppliers. 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.

Acuité believes that the company's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

>Intense competition from players in the industry

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

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity Position: Stretched

MDPL has a stretched liquidity position as reflected by modest net cash accruals and intensive working capital operations. The company generated cash accruals of Rs.(5.45) crore in FY2021 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.4.80 crore- Rs.14.35 crore from FY2022 to FY2024, against moderate repayment obligations in the range of Rs.0.12 crore- Rs.1.68 crore. Unencumbered cash and bank balances stood at Rs.3.50 crore as on March 31, 2021 with a current ratio of 2.41 times in the same period. Liquid investments stood at Rs.6.63 crore as on March 31, 2021. The working capital operations are intensive marked by GCA of 265 days for FY2021. The company is managing liquidity through bank loans taken. Also, customers pay 50% in advance, so this is another way in which the company is managing liquidity. However, the liquidity position has improved in FY2022 marked by adequate cash accruals against moderate repayment obligations.

Acuité believes that liquidity profile is expected to improve over the medium term on account of modest cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that MDPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	198.86	353.43
PAT	Rs. Cr.	(9.82)	(1.93)
PAT Margin	(%)	(4.94)	(0.55)
Total Debt/Tangible Net Worth	Times	0.17	0.45
PBDIT/Interest	Times	(0.77)	1.67

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

Not Applicable

Any other information

None

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 Entity: <https://www.acuite.in/view-rating-criteria-61.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
17 Feb 2021	Packing Credit	Long Term	25.00	ACUITE BBB- (Withdrawn)
	Bills Discounting	Long Term	22.00	ACUITE BBB- Negative (Reaffirmed)
	Packing Credit	Long Term	40.00	ACUITE BBB- (Withdrawn)
	Packing Credit	Long Term	15.00	ACUITE BBB- (Withdrawn)
16 Oct 2019	Packing Credit	Long Term	40.00	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB- Stable Reaffirmed Negative to Stable

***Sublimit – EPC/PCFC of Rs.22.00 crore of Bill Discounting (EBD/EBRD).**

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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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