



Press Release
Mkm Diamonds Private Limited
August 07, 2023
Rating Reaffirmed

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

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 'Stable'.

Rationale for reaffirmation

The rating reaffirmation takes into account the moderate financial risk profile of the company and the improved working capital operations of the company. The rating also takes into account the improvement in the operating income of the company. The company's revenue improved and stood at Rs.573.54 crore in FY2023 (Prov) as against the revenue of Rs.329.78 crore in FY2022 driven by the increase in overall demand for the small diamonds. However, the ratings are constrained by the decline in the margins as reflected by the operating margin of 1.37 percent in FY2023(Prov) as against 2.48 percent 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. 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.

Improvement in working capital operations

The company's operations have improved as evident from the GCA days of 110 days as on March 31, 2023 (Prov) as against GCA days of 203 days as on March 31, 2022. The inventory days stood at 75 days for FY23(Prov) as against 138 days for FY22. Average inventory holding period is around 30-60 days. The company is focusing on the efficient inventory management. The debtors' days stood at 27 days for FY23(Prov) as against 62 days for FY22. The average credit period allowed to the customers is around 60 days. Majorly advance payments are received from the customers. The creditors days stood at 39 days for FY23(Prov) against 85 days for FY22. The average credit period received from the supplier is around 60 days. The average utilization of the bank limits is low at around 21 percent for six months ending June '2023. Acuité believes that the ability of the company to maintain efficient working capital operations will remain key sensitivity in medium term.

Moderate financial risk profile

The company has a moderate financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics. The tangible net worth of the company stood at Rs.121.40 crore as on March 31, 2023 (Prov), as against Rs.116.61 crore as on March 31, 2022. The increase in the net worth is due to accretion of profits to reserves. The gearing of the company stood at 0.15 times as on March 31, 2023(Prov), as against 0.12 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.3.24 crore and short-term debt of Rs.13.08 crore as on March 31, 2023. The long-term debt consists of the GECL loan. The interest coverage ratio stood at 5.43 times as on March 31, 2023, as against 7.20 times as on March 31, 2022. The DSCR stood at 2.56 times as on March 31, 2023, as against 4.36 times as on March 31, 2022. Acuité believes that the financial risk profile of the firm is expected to remain moderate in the medium term in the absence of any major debt funded capex in near to medium term.

Weaknesses

Thin profitability margins albeit improvement in scale of operations

The revenue of the company stood at Rs.573.54 crore in FY2023 (Prov) as against the revenue of Rs.329.78 crore in FY2022. The increase in the revenues is due to the increase in the demand for the diamonds amidst the festive seasons. The operating margins have declined and stood at 1.37 percent in FY2023(Prov) as against 2.48 percent in FY2022. The decline in the margins is on account of increase in the employee costs as well as increase in the raw materials costs. The PAT margin declined and stood at 0.59 percent in FY2023(Prov) as against 0.67 percent in FY2022. Acuité believes that the ability of the company to improve the profitability margins in medium term will be a key rating sensitivity.

Customer concentration risk

The company is exposed to customer concentration risk as ~50-60 percent of its total sales are derived from a single customer - Kirtilal Kalidas Jewellers Private Limited. However, the company is planning to increase the customer base in medium term.

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 CPD segment has witnessed intense competition with presence of large and small players. 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 improvement in 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: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.6.16 crore in FY23(Prov) as against maturing debt obligations of Rs. 1.49 crore over the same period. The company is estimated to generate cash accruals of Rs.6.35-6.48 crore over the period 2024-2025 against maturing debt obligations of Rs.0.42-1.93 crore over the same period. The company maintains unencumbered cash and bank balance of Rs.6.87 crore as on March 31, 2023(Prov). The current ratio is healthy at 2.30 times as on March 31, 2023(Prov). Acuité believes that liquidity profile is expected to be adequate in the medium term on account of adequate 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	573.54	329.78
PAT	Rs. Cr.	3.36	2.21
PAT Margin	(%)	0.59	0.67
Total Debt/Tangible Net Worth	Times	0.15	0.12
PBDIT/Interest	Times	5.43	7.20

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-52.htm>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
10 May 2022	Bills Discounting	Long Term	22.00	ACUITE BBB- Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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