

Press Release
Mkm Diamonds Private Limited
April 22, 2024



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE B- Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating to '**ACUITE B-**' (read as **ACUITE B Minus**) on the Rs 25.00 crore bank facilities of MKM Diamonds Private Limited (MDPL). The rating has been withdrawn in line with Acuite's policy of withdrawal of ratings as applicable to the respective instrument/facility. The rating has been withdrawn on account of the request received from the company and the NOC (No Objection Certificate) received from the bankers.

Rationale for reaffirmation

The rating is reaffirmed on account of ongoing litigation of the company against initiation of corporate insolvency resolution process (CIRP) against it vide NCLT order dated September 01, 2023. As on date, the matter is sub-judice at NCLAT. The company under protest has made part payment and is awaiting hearing on the case.

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.

Unsupported Rating

Not Applicable

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.

Improved Working capital management

The company's operations have improved as evident from the GCA days of 109 days as on March 31, 2023 as against GCA days of 203 days as on March 31, 2022. The inventory days stood at 75 days for FY23 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 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 against 85 days for FY22.

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.120.78 crore as on March 31, 2023, 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, as against 0.12 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.3.50 crore and short-term debt of Rs.14.86 crore as on March 31, 2023. The interest coverage ratio stood at 5.27 times as on March 31, 2023, as against 7.20 times as on March 31, 2022. The DSCR stood at 5.22 times as on March 31, 2023, as against 4.36 times as on March 31, 2022.

Weaknesses

Litigation risks

Corporate Insolvency Resolution Process (CIRP) was initiated against MKM Diamonds Private Limited vide NCLT order dated September 01, 2023. Due to non-payment of long pending outstanding dues of the company towards operational creditor State Bank of India, Antwerp against a transaction conducted in October, 2016, the said order was passed. As on date, the matter is sub-judice at NCLAT. The company under protest has made part payment and is awaiting hearing on the case.

Thin profitability margins albeit improvement in scale of operations

The revenue of the company stood at Rs.574.71 crore in FY2023 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 1.40 percent in FY2023 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 cost. The PAT margin declined and stood at 0.64 percent in FY2023 as against 0.67 percent in FY2022.

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

Not Applicable

Liquidity Position

Stretched

The company has a stretched liquidity in view of the ongoing litigation risks on the company. Out of the total dues payable as per the NCLT order, the company has made part payment under protest and is awaiting hearing on matter at NCLAT. In case of an adverse outcome for the company, its liquidity position is expected to get impacted. The company generated cash accruals of Rs.6.46 crore in FY23 against no debt obligation in 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. The current ratio is healthy at 2.30 times as on March 31, 2023.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	574.71	329.78
PAT	Rs. Cr.	3.66	2.21
PAT Margin	(%)	0.64	0.67
Total Debt/Tangible Net Worth	Times	0.15	0.12
PBDIT/Interest	Times	5.27	7.20

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.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
12 Sep 2023	Bills Discounting	Long Term	10.00	ACUITE B- Stable (Downgraded from ACUITE BBB- Stable)
	Secured Overdraft	Long Term	12.00	ACUITE B- Stable (Downgraded from ACUITE BBB- Stable)
	Secured Overdraft	Long Term	3.00	ACUITE B- Stable (Assigned)
07 Aug 2023	Bills Discounting	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
10 May 2022	Bills Discounting	Long Term	22.00	ACUITE BBB- Stable (Reaffirmed)
17 Feb 2021	PC/PCFC	Long Term	40.00	ACUITE BBB- (Reaffirmed & Withdrawn)
	PC/PCFC	Long Term	15.00	ACUITE BBB- (Reaffirmed & Withdrawn)
	PC/PCFC	Long Term	25.00	ACUITE BBB- (Reaffirmed & Withdrawn)
	Bills Discounting	Long Term	22.00	ACUITE BBB- Negative (Reaffirmed)

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 avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE B- Reaffirmed & Withdrawn
Punjab National Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE B- Reaffirmed & Withdrawn
Punjab National Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE B- Reaffirmed & Withdrawn

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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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