

Press Release

Shree Ramkrishna Exports Private Limited

December 04, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 1664.43 Cr.
Long Term Rating	ACUITE A+/ Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A+**' (**read as ACUITE A plus**) and short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs.1664.43 crore bank facilities of SHREE RAMKRISHNA EXPORTS PRIVATE LIMITED (SRKEPL). The outlook is '**Stable**'.

About SRKEPL

SRKEPL, a Mumbai based company, engaged in processing and trading of cut & polished diamonds (CPD) was incorporated in 2012 by Mr. Govindbhai Dholakia along with his family members. Mr. Dholakia has been associated with the diamond trade since 1964. Initially the business was carried out as a proprietorship concern (Shree Ramkrishna Exports); later in 1976 it was converted into a partnership firm. SRKEPL's manufacturing facilities are located at Surat (Gujarat). The company sells in domestic as well as overseas markets as USA, Europe and Hong Kong. SRKEPL has been focusing on the online sales as a part of its distribution and marketing strategy.

SRKEPL is a sightholder of De Beers, Rio Tinto Diamonds and Alrosa Co. Besides the procurement from its sights, SRKEPL also procures roughs from other companies like Dominion Diamond and other market players.

About other group entities

SRKEPL has other 6 associate/group entities; Ramkrishna Goldi Pvt. Ltd. (Mumbai), Shree Ramkrishna Gems Pvt. Ltd. (Mumbai), The Jewellery Co. (Mumbai), Jewel Goldi (Mumbai), Sahajanand Diamonds (Mumbai) and Shree Ram Diamex Pvt. Ltd. (Surat). These entities are mostly into export-import of diamonds or manufacturing of diamond jewellery.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SRKEPL to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and established market position in the gems and jewellery industry**

The promoters of SRKEPL started their business in 1964. The company is engaged in manufacturing and trading of cut & polished diamonds with carat range from 0.30 to 31 in any of the cut, clarity and colour ranges. The company is promoted by Mr. Govindbhai Dholakia and family. The promoter is well supported by second generation – Mr. Rahulbhai Dholakia, Mr. Shreyans Dholakia and Mr. Jayantibhai Narola. The company's promoters have been in the diamond industry for more than five decades and have established position in the industry. SRKEPL has a global presence and is among one of the leading diamond players in India. They have a diversified customer base, based in USA, Europe, and Hong Kong among other countries.

SRKEPL is a sight holder with leading miners such as De Beers, Rio Tinto & Alrosa which ensures steady supply of rough diamonds. Apart from the sights, the group also procures roughs from the

market and through auction.

Besides efficient procurement the company has also focused on effective marketing and distribution by leveraging its online sales channel. SRKEPL's online portal has highly enhanced and sophisticated features to provide extremely granular product related information to the prospective clients. Hence, the company is able to generate large proportion of its revenues through online sales channel. The online channel has conventionally been used to serve the B2C segment (business to customer). SRKEPL has successfully replicated this channel to cater to the B2B segment (business to business). This has helped the company increase its efficiency as it is able to serve more customers. Hence, as per management estimates, ~65-70 per cent of its sales is through online portal. The overall revenues stood at ~Rs. 8910 crore in FY2019 (PY: ~Rs. 7645 crore). In dollar terms, the export revenues (including DDA sales and deemed exports) increased from ~USD 1.07 bn in FY2018 to ~USD 1.14 bn in FY2019. The local sales increased from ~Rs. Rs.723 crore in FY2018 to ~Rs. 870 crore in FY2019. In the current fiscal the company has generated revenues of ~Rs. 5397 crore for the period April-October, 2019. In terms of size, ~80 per cent of the diamonds sold during FY2019 were in the bracket of 1 carat and above. In terms of diversification of customer base, top 30 clients accounted for ~44 per cent of the total revenues in FY2019 (PY: ~45 per cent). S. Goldi (Asia) Ltd., an associate company accounts for ~20 per cent of the total revenues.

Acuité believes the company will continue to benefit from its established presence in the diamond industry, and the promoter's demonstrated ability to manage and scale up the business 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.1359.66 crore as on March 31, 2019 as against Rs.1233.00 crore on March 31, 2018. The company has followed a conservative financial policy as reflected by gearing of 0.95 times as on 31 March 2019 (PY: 0.82 times). Total debt of Rs. 1285.02 crore as on 31 March, 2019 includes working capital borrowings of over Rs.1188.77 crores and Rs. 96.24 crore of interest free unsecured loans. The company avails fund based limits of Rs.1550.00 crore from a consortium of 14 banks comprising both private sector and public sector banks. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.37 times as on March 31, 2019 as against 1.39 times as on 31 March, 2018. SRKEPL's reliance on external borrowing has remained moderate throughout the year marked by its average bank limit utilisation of ~80 per cent for last six months ending October 2019. This is majorly on account of modest level of Gross Current Asset (GCA) of 113 days for FY2019 as against 119 days for FY2018. GCA days have remained in the range of 110 – 120 days in the last three years through 2017-2019 indicating efficient working capital management as compared to industry standards. SRKEPL's ability to sustain its growth while managing its working capital efficiently will remain a key rating sensitivity factor. SRKEPL plans to gradually curtail its dependence on external borrowings.

SRKEPL's EBITDA margins have ranged between 5.10~5.90 per cent in past three years. Interest Coverage Ratio (ICR) stood at 2.58 times for FY2019 as against 6.08 times for FY2018. The decline in ICR was mainly on account of sharp increase in finance costs attributable to forex losses. The company's PAT for FY2019 and FY2018 was impacted on account of significant provision (~Rs. 123 crore in FY2019 and ~Rs.45 crore in FY2018) in respect of delinquency of one jewellery division client. These delinquent receivables were pertaining to previous years (FY2016 and FY2017).

Acuité believes SRKEPL will continue to benefit from its healthy financial risk profile and its efficient management of working capital. Its focus on online channel will help in managing its working capital cycle efficiently thereby enhancing its ability to reduce its dependence on external borrowings.

Weaknesses

- **Susceptibility of operating performance to overall slowdown in gems and jewellery sector; Discretionary spending in key markets to drive future growth.**

As per the data released by Gem and Jewellery Export Promotion Council (GJEPC), the exports of CPD from India for the period April, 2019-October, 2019 were at ~USD12.24 bn (~Rs. 85931 crore) as compared to ~USD 14.98 bn (~Rs. 104062 crore) for corresponding period during previous year indicating a decline of ~18 per cent in dollar terms. The subdued demand conditions in key markets has impacted the credit profiles of the players in the gems and jewellery sector. Significant continued slowdown 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 likelihood of delinquencies also picks up during such periods of subdued demand. In such a situation, prudent players like SRKEPL adopt cautious approach to growth to avoid any stress on the financial indicators. SRKEPL sells ~85.00 per cent to overseas clients directly or through its marketing affiliates. Demand for CPD is directly linked to discretionary spending by the clients. A continued slowdown in the key markets of Europe and USA is likely to impinge on the demand trajectory of the gems and jewellery sector.

Besides the demand related issues, the gems and jewellery sector has witnessed large delinquencies in the recent past which has impacted the approach of the lenders to this sector. Such credit events are expected to have an adverse impact on the future credit flow to the sector and the cost of credit. The challenges in accessing credit from the banking system further adds to the stress as the players have to scale down their operations due to inadequacy of working capital limits. Besides credit related issues, the CPD segment also has to face challenges arising from emergence of new substitutes like lab-grown diamonds.

Acuité believes that established players like SRKEPL will be able to maintain a resilient credit profile on the back of their healthy financial risk profile and demonstrated ability to manage their working capital efficiently.

Rating Sensitivity

- Sustained growth in operating performance.
- Working capital cycle.
- Capital structure and debt protection indicators.
- Slowdown in industry leading to inventory pile up.

Material Covenants

- Preference shares of Rs.130.00 crore cannot be withdrawn without approval of consortium.
- As per recent consortium minutes the management has committed to maintain the gearing at 1.40 times.

Liquidity Position – Adequate

The company has efficiently managed its working capital cycle as marked by gross current asset (GCA) days of 113 in FY 2019. The company has ensured that a significant proportion of its working capital requirements are funded through long term sources (equity) which is reflected in healthy current ratio of 1.63 times as on March 31, 2019. The working capital limits were utilised at ~80.00 per cent (average of month end balance) during the last 6 months period ended October 2019. The company had unencumbered cash and bank balances of Rs.47.37 crore as on March 31, 2019. The company does not have any major capex commitments over the medium term. Acuité expects the liquidity profile to remain healthy over the near to medium term.

Outlook: Stable

Acuité believes that SRKEPL will maintain a 'Stable' credit profile over near to medium term on back of its established position in the gems and jewellery sector and healthy financial risk profile. The outlook may be revised to 'Positive' if the company reports significantly higher than expected operating performance while managing its working capital cycle efficiently and sustaining its healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in operating performance 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.	8,910.30	7,645.84	7,507.13
EBITDA	Rs. Cr.	525.88	393.84	407.93
PAT	Rs. Cr.	126.63	194.25	226.60
EBITDA Margin	(%)	5.90	5.15	5.43
PAT Margin	(%)	1.42	2.54	3.02
ROCE	(%)	15.68	15.14	34.54
Total Debt/Tangible Net Worth	Times	0.95	0.82	1.15
PBDIT/Interest	Times	2.58	6.08	6.19
Total Debt/PBDIT	Times	3.11	2.83	2.93
Gross Current Assets (Days)	Days	113	119	116

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-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)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PSC/PSCFC	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A+/Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	56.00	ACUITE A+/Stable (Assigned)
PC/PS	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A+/Stable (Assigned)
PSC/EBRD	Not Applicable	Not Applicable	Not Applicable	283.77	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	365.75	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	368.48	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A+/Stable (Assigned)

EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Assigned)
EPC/ PCFC/ PSC/FCBD/PSCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	114.43	ACUITE A1 (Assigned)

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About Acuité Ratings & Research:

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