

Press Release

Shree Ramkrishna Exports Private Limited

February 12, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and the 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 (SRPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The reaffirmation is on account of improvement in scale of operations, healthy financial risk profile, and improvement in liquidity position. Rating also factors in establish market position and SRPL has demonstrated ability to manage its working capital cycle at same levels while sustaining its existing business risk profile despite pandemic and economic slowdown. However, rating is constrained by elevated debt levels and tepid market conditions, which has impacted demand and lowered spending on discretionary products.

About Company

SRPL, a Mumbai based private limited company 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. The company is engaged in processing and trading of cut & polished diamonds (CPD). SRPL's manufacturing facilities are located at Surat (Gujarat). The company sells in domestic as well as overseas markets as USA, Europe and Hong Kong. SRPL has been focusing on the online sales through their own IT platform as a part of its distribution and marketing strategy. SRPL is a sightholder of De Beers, Rio Tinto Diamonds and Alrosa Co. Besides the procurement from its sights, SRPL also procures roughs from other companies like Dominion Diamond and other market players.

About other group entities

SRPL 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

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

Key Rating Drivers

Strengths

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

The promoters of SRPL started their business since 1964. The company is engaged in manufacturing and trading of cut & polished diamonds with carat range from 0.30 to 5.00 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. SRPL 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.

SRPL 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. SRPL'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). SRPL 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, ~70-75 per cent of its sales is through online portal.

The overall revenues stood improved at ~Rs. 9,195.42 crore in FY2020 as against Rs. 8,910.30 crore in FY2019. The company has achieved revenue of Rs. 5908 crores as on December, 2020. The export revenues increased from ~ Rs. 7,521.87 crore in FY2019 to ~ Rs. 7,535.73 in FY2020. The local sales (including DDA sales) increased from ~Rs.1,388.35 crore in FY2019 to ~Rs. 1,646.69 crore in FY2020. In terms of size, ~56.00 per cent of the diamonds sold during FY2020 were in the bracket of 1 carat and above. In terms of diversification of customer base, top 35 clients accounted for ~42 per cent of the total revenues in FY2019 (PY: ~44 per cent). J. Goldi (India), an associate company accounts for ~5.00 per cent of the total revenues. Acuite 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 continues to remain healthy marked by healthy net worth, gearing and debt protection measures. The Tangible net worth stood at Rs. 1,551.14 crores as on 31 March 2020 as against Rs. 1,359.66 crore as on 31 March, 2019 and Rs. 1,233.00 crore as on 31 March, 2018. The improvement in net worth is attributable to healthy accretion to reserves over the period. The gearing stood low at 0.80 times as on 31 March 2020 as against 0.95 times as on 31 March, 2019 and 0.82 times as on 31 March, 2018. The total borrowings of Rs. 1,247.27 crore as on 31 March, 2020 comprises of short term borrowings of Rs 1,207.44 crores and unsecured loan of Rs. 39.84 crores. The net cash accruals stood at Rs. 220.19 crore for FY2020 as against no long term debt repayment obligation. The interest coverage ratio (ICR) stood at 2.84 times in FY2020 as against 2.58 times in FY2019 and 6.08 times in FY2018. The total outside liabilities to tangible net worth stood at 1.41 times as on 31 March 2020 as against 1.37 times as on 31 March, 2019.

Acuite believes that the financial risk profile of the company is expected to remain healthy with regular accretions to reserves and in the no major debt funded capital expenditures. Acuite believes SRPL 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.**

India's gems and jewellery export stood at US\$ 29.07 billion in FY2020 while India exported cut and polished diamonds worth US\$ 18.66 billion, thereby contributing 52.4 per cent to the total gems and jewellery export. The cumulative Foreign Direct Investment (FDI) inflow in diamond and gold ornaments in the period April 2000 – March 2020 was US\$ 1.17 billion according to Department for Promotion of Industry and Internal Trade (DPIIT). Impact of COVID -19 has impacted industry in Q1FY2021. The normalcy in the industry is still expected, 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. SRPL 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. Acuite believes that established players like SRPL 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 Sensitivities

- Sustained existing operating performance and efficiently manage its working capital cycle.
- Capital structure and debt protection indicators.
- Slowdown in industry leading to inventory pile up and elongation on receivables

Liquidity Position: Strong

The company has strong liquidity position marked by healthy net cash accruals of Rs. 160.50 to 220.19 crore for last three years ending FY2020 against no long term debt repayment over the same period. The company's operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 131 days in FY2020 as compared to 114 days in FY2019. However, the company reliance is lower on bank limits which stood lower utilised at 30 percent on average for last six month ending December 2020. The current ratio of the company stood at 1.60 times as on March 31, 2020. NCA/TD stood at 0.18 times as on 31st March, 2020 and 0.12 times in the previous year. The company maintains unencumbered cash and bank balances of Rs. 15.52 crore as on March 31, 2020. The company does not have any major capex commitments over the medium term. Acuite expects the liquidity profile to remain healthy over the near to medium term.

Outlook: Stable

Acuite believes that SRPL 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	9,195.42	8,910.30
PAT	Rs. Cr.	191.33	126.63
PAT Margin	(%)	2.08	1.42
Total Debt/Tangible Net Worth	Times	0.80	0.95
PBDIT/Interest	Times	2.84	2.58

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

None

Any other information

Not Applicable

Any Material Covenants

- Preference shares of Rs.130. 00 crore cannot be withdrawn without approval of consortium.
- Total Debt/EBITDA not exceed 4.50 times at all times

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
04-Dec-2019	PSC/PSCFC	Long Term	45.00	ACUITE A+/Stable (Assigned)
	EPC/PCFC	Long Term	50.00	ACUITE A+/Stable (Assigned)
	EPC/PCFC/PSC/PSCFC	Long Term	56.00	ACUITE A+/Stable (Assigned)
	PC/PS	Long Term	60.00	ACUITE A+/Stable (Assigned)
	PSC/EBRD	Long Term	283.77	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/PSC/ FCBD/PSCFC	Long Term	365.75	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/PSC/ FCBD/PSCFC	Long Term	368.48	ACUITE A+/ Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	52.00	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	90.00	ACUITE A+/ Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	25.00	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	54.00	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	50.00	ACUITE A+/Stable (Assigned)
	EPC/ PCFC/ PSC/FCBD/PSCFC	Long Term	50.00	ACUITE A+/Stable (Assigned)
	Proposed Bank Facilities	Short Term	114.43	ACUITE A1 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Post Shipment Credit/ PSFC	Not Applicable	Not Applicable	Not Applicable	45.00*	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	56.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A+/Stable (Reaffirmed)
Post Shipment Credit/ EBRD	Not Applicable	Not Applicable	Not Applicable	283.77	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	365.75	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	330.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A+/Stable (Reaffirmed)
Proposed Long term Bank Facility	Not Applicable	Not Applicable	Not Applicable	38.48	ACUITE A+/Stable (Reaffirmed)
Proposed Short term Bank Facility	Not Applicable	Not Applicable	Not Applicable	114.43	ACUITE A1 (Reaffirmed)

*Sublimit of Rs.22.50 crores of EPC/PCFC

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