

Press Release

Shree Ramkrishna Exports Private Limited

July 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 1,664.43 Cr.
Long Term Rating	ACUITE AA-/Outlook: Stable (Upgraded from ACUITE A+/Stable)
Short Term Rating	ACUITE A1+ (Upgraded from ACUITE A1)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE AA-**' (**read as ACUITE double A minus**) from '**ACUITE A+**' (**read as ACUITE A plus**) and the short term rating to '**ACUITE A1+**' (**read as ACUITE A one plus**) from '**ACUITE A1**' (**read as ACUITE A one**) to the Rs. 1664.43 Cr. bank facilities of Shree Ramkrishna Exports Private Limited (SRPL). The outlook is '**Stable**'.

Rationale for rating upgradation

The rating upgrade is on account of a continuous improvement in scale of operations while maintaining healthy financial risk profile along with strong credit metrics and a sound liquidity position despite the uncertain backdrop of Covid-19 and tepid market conditions. The upgrade in the ratings also continues to factor in SRPL's establish track record of operations of over four decades, diversified clientele and establish market position, backed by extensive experience of the promoters in Cut & Polished Diamonds (CPD) industry.

The rating favourably factors in a significant improvement in capital structure, marked by improvement in overall gearing and interest coverage indicators in FY2021. Moreover, the company has demonstrated its resilience to the cyclicalities associated with the industry by maintaining its working capital cycle at same levels and sustaining its strong business risk profile, despite pandemic linked disruptions in key export markets like USA, Hong Kong and Israel. However, rating is constrained by the uncertainty in the operating environment due to continuing risks of the pandemic which can have impact on overall demand and spending behavior of customers on discretionary products. Further, regulatory risk, susceptibility of the profitability to volatility in the prices of rough diamonds, foreign exchange fluctuations risk and intense competition marked by fragmented nature of cut and polished diamond (CPD) industry remain the key challenges to SRPL's credit profile.

About Company

Shree Ramkrishna Exports Private Limited (SRPL), a Mumbai based private limited company was incorporated in 2012 by Mr. Govindbhai Dholakia and 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 has two manufacturing facilities located at Surat, Gujarat and register office at Bharat Diamond Bourse (BDB) - BKC, Mumbai.

The company sells in domestic as well as overseas markets which includes USA, Israel, Europe and Hong Kong. Total exports contribute to 85 percent of the revenues in FY2021 and 82.07 percent in FY2020. SRPL has been focusing on the online sales through their own B2B, IT platform as a part of its distribution and marketing strategy which contributes 90 to 95 percent of total sales in Q1FY2022 as against 75 percent in FY2021, as per management. The company is also a sight holder of De Beers, Rio Tinto Diamonds and Alrosa Co. Besides direct 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

Acuité has considered the standalone business and financial risk profiles of SRPL to arrive at this rating. The group/associate enterprises haven't been consolidated since latter's scale of operations are insignificant and there are no material operational or financial linkages between them and SRPL.

Key Rating Drivers

Strengths

- Experienced management, improved operating performance 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 (CPD) with carat range from 0.30 to 5.00 in any of the cut, clarity and color 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 company also procures roughs from the market and through auction. Besides efficient procurement mechanism, 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, ~75 per cent of its sales is carried out through online portal in FY2021. The same is expected to increase above 90 to 95 percent in Q1FY2022.

The overall revenues stood improved by 3.68 percent Y-o-Y at ~Rs 9,533.88 Cr. in FY2021 as compared to Rs. 9,195.42 Cr. in FY2020. The company has achieved revenue of Rs. 3,494.02 Cr. for Q1FY2022. The export revenues increased from ~ Rs. 7,535.73 Cr. in FY2020 to ~ Rs. 8008.93 Cr. in FY2021 on back of strong demand in key markets. The local sales (including DDA sales) stood slightly declined from ~ Rs. 1,646.69 Cr. in FY2020 to ~Rs. 1,524.48 Cr. in FY2021. In terms of size, ~56.00 per cent of the diamonds sold during FY2021 were in the bracket of 1 carat and above. In terms of diversification of customer base, top 35 clients accounted for ~41 per cent of the total revenues in FY2021 (PY: 41.06 per cent).

Further, the operating margins also stood improved at 6.05 percent in FY2021 as against 4.96 percent in FY2020 and 5.90 percent in FY2019. Also, PAT margins stood significantly improved at 4.00 percent in FY2021 as against 2.08 percent in FY2020 and 1.42 percent in FY2019. The margins have improved due to decline in raw material cost Y-o-Y which stood at 81.45 percent in FY2021 as against 91.68 percent in FY2020 and 90.23 percent in FY2019. Moreover, there is decline in other manufacturing cost (Job work) as compared to previous year due to increase of in-house skilled labor by reducing contract work. Acuité believes that the company will continue to benefit from its established presence in the diamond industry, and the extensive promoter's experience demonstrated by 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, strong capital structure marked by improvement in gearing and debt protection measures. The Tangible net worth stood at Rs. 1,932.94 Cr. as on March 31, 2021 as against Rs. 1,551.14 Cr. as on March 31, 2020 and Rs. 1,359.66 Cr. as on March 31, 2019. The improvement in net worth is attributable to healthy accretion to reserves over the period. The gearing stood low at 0.42 times on March 31, 2021 as against 0.80 times as on March 31, 2020 and 0.95 times as on March 31, 2019. The total borrowings stood lower at Rs. 807.02 Cr. as on March 31, 2021 as against Rs. 1,247.27 Cr. as on March 31, 2020. The decline in reliance of debt is due to healthy profitability and higher cash flow from operations. The debt comprises of short term borrowings of Rs 783.25 Cr. and unsecured loan of Rs. 23.76 Cr. The net cash accruals stood higher at Rs. 405.06 Cr. as on March 31, 2021 as against Rs. 220.19 Cr. as on March 31, 2020, as against no long term debt repayment obligation. The interest coverage ratio (ICR) stood significantly improved at 12.49 times in FY2021 as against 2.84 times in FY2020 and 2.58 times in FY2019 due to lower reliance and utilization of short term borrowings. The total outside liabilities to tangible net worth also stood improved at 0.78 times on March 31, 2021 as against 1.41 times as on March 31, 2020.

Acuité believes that the financial risk profile of the company is expected to remain healthy with regular accretions of profits to reserves and in the absence of no major debt funded capital expenditure plan. Also, SRPL will continue to benefit from its healthy financial risk profile and its efficient management of working capital. Its focus on online channel and fixed payment terms has helped SRPL in managing its working capital cycle efficiently thereby enhancing its ability to reduce its dependence on external borrowings.

Weaknesses

- **Susceptibility of operating performance to cyclicalities in gems and jewellery sector, concentration risk and discretionary spending in key markets to drive future growth**

In FY2021, exports of gems & jewellery stood declined at USD 25.30 billion in FY2021 as against USD 29.07 billion in FY2020. India exported cut and polished diamonds worth USD 17.15 billion in FY2021 as against USD 18.66 billion, thereby contributing 67.80 percent in FY2021 as against 52.40 per cent to the total gems and jewellery export. Impact of COVID-19 has impacted industry in Q1 and Q2 of FY2021, normalcy in the industry is still expected. The 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 SRPL adopt cautious approach to growth to avoid any stress on the financial indicators. SRPL, export sales contribute to 80 to 85 percent to overseas clients directly or through its marketing affiliates. Demand for CPD is directly linked to discretionary spending by the clients and spending pattern changes as a result of economic slowdown. The foreign exchange risk is involved which may result in higher interest cost and fluctuation in raw material prices i.e. diamonds will have direct impact on margins, profitability observed from previous years' performance of SRPL.

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. Other than credit related issues, the CPD segment also has to face challenges arising from emergence of new substitutes like lab-grown diamonds and regulatory risk.

Furthermore, SRPL faces concentration risk as two major intermediate/marketing affiliates which contributes to 20 - 25 percent of total sales and purchases of company for key markets like Hong Kong and Israel. Also, three key markets ~ USA, Hong Kong and Israel contributes to more than 60 percent of revenues in last three year ending FY2021. Any impact on the relationships with these players and any change in demand or disruption in this key markets will have direct impact on operating performance of SRPL. Acuité 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 business risk profile during uncertain market conditions.

Rating Sensitivities

- Sustained improvement in operating performance and efficient management of its working capital requirement.
- Significant Improvement in capital structure and debt protection indicators
- Slowdown in industry leading to inventory pile up and elongation of receivables

Liquidity Position – Strong

The company maintains strong liquidity position marked by healthy net cash accruals of Rs. 160.50 Cr. to Rs. 405.06 Cr. for last three years ending FY2021, against no major long term debt repayment over the same period. The current ratio of the company stood improved at 2.10 times as on March 31, 2021 as against 1.60 times as on March 31, 2020. NCA/TD stood at 0.50 times as on March 31, 2021 as against 0.18 times in the previous year. The company has unencumbered cash and bank balances of Rs. 32.95 Cr. as on March 31, 2021. SRPL has lower dependence on bank limits which stood lower utilised at 35.00 percent on average for last six month ending June 2021. The company does not have any major capex commitments over the medium term. The funding sources are well diversified across multiple banks. Acuité expects the liquidity profile to remain strong and healthy over near to medium term.

Outlook: Stable

Acuité believes that SRPL will maintain a 'Stable' credit profile over near to medium term on back of its established position in Cut & Polished Diamonds (CPD) industry and healthy financial risk profile. The outlook may be revised to 'Positive' if the company reports significantly higher than expected operating performance while efficiently managing its working capital cycle and sustaining its healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in operating performance, debt funded capex as well as elongation in the working capital cycle leading to deterioration in the overall financial risk profile and capital structure of SRPL.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	9,533.88	9,195.42
PAT	Rs. Cr.	381.67	191.33
PAT Margin	(%)	4.00	2.08
Total Debt/Tangible Net Worth	Times	0.42	0.80
PBDIT/Interest	Times	12.49	2.84

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

None

Any other information

Not Applicable

Any Material Covenants

- Preference shares of Rs.130. 00 Cr. cannot be withdrawn without approval of consortium lenders.
- Total Debt/EBITDA not exceed 4.5 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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
12-Feb-2021	Post Shipment Credit/PSFC	Long Term	45.00*	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	50.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	56.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	60.00	ACUITE A+/Stable (Reaffirmed)
	Post Shipment Credit/EBRD	Long Term	283.77	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	365.75	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	330.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	52.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	90.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	25.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	54.00	ACUITE A+/Stable (Reaffirmed)
	PC/PCFC	Long Term	50.00	ACUITE A+/Stable (Reaffirmed)
04-Dec-2019	Proposed Long term Bank Facility	Long Term	38.48	ACUITE A+/Stable (Reaffirmed)
	Proposed Short term Bank Facility	Short Term	114.43	ACUITE A1 (Reaffirmed)
	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	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 AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	56.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE AA-/Stable (Upgraded)
Post Shipment Credit/EBRD	Not Applicable	Not Applicable	Not Applicable	283.77	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	365.75	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	330.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE AA-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE AA-/Stable (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	38.48	ACUITE AA-/Stable (Upgraded)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	114.43	ACUITE A1+ (Upgraded)

*Sublimit of Rs.22.50 crores of EPC/PCFC

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About Acuité Ratings & Research:

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