

Press Release

Pooja Diam LLP (Erstwhile Pooja Exports)

October 28, 2020

Rating Downgraded and Assigned



Total Bank Facilities Rated*	Rs.598.34 Cr. (Enhanced from Rs.564.20 Cr.)
Long Term Rating	ACUITE BBB (Downgraded and Assigned; Under Watch with Negative Implications)
Short Term Rating	ACUITE A3+ (Downgraded; Under Watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) for the Rs. 597.44 crore bank facilities of M/s Pooja Diam LLP (Erstwhile Pooja Exports).

In addition, Acuité has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.0.90 crore bank facilities of Pooja Diam LLP (Erstwhile Pooja Exports). The rating is further placed '**Under Watch with Negative Implications**'.

Revision in ratings

The downward revision in the rating is primarily driven by the current challenges faced by the Pooja Group in maintaining adequate liquidity buffers commensurate with its near to medium term debt obligations. The group's operations have been severely impacted due to the ongoing COVID-19 pandemic, marked by further elongation of its already stretched receivables coupled with reduced financial flexibility and limited access to additional working capital borrowings. The revision in the rating also takes into account sluggish demand in key markets for diamond jewellery due to a prolonged period of decline in discretionary consumer spending.

Acuité understands that the group has approached its consortium lenders for release of additional limits and further extension of the tenure of export bills to tide over the current liquidity pressures in line with the revised RBI guidelines in the pandemic period. The timely release of these additional lines and extension of export bills by the lenders will be critical to mitigate the near term liquidity pressures of the group.

In the opinion of Acuité, the extent of the liquidity pressures is difficult to ascertain at this juncture when some of the lenders are yet to decide regarding their future funding to the group. Acuité will be closely monitoring the developments with respect to the ongoing discussions of the group with its lenders and any further intensification of liquidity pressures in such a situation could impart a further negative bias to the rating. In the event of the group demonstrating an ability to resolve the current impasse with the lenders and get the required extension in some of its export bills, Acuité will initiate necessary action to resolve the rating watch.

About the Company

Pooja Diam LLP (erstwhile Pooja Exports) is a Mumbai based limited liability partnership firm established in 1992 as a partnership firm. The constitution has been recently changed to Limited Liability Partnership (LLP) as on September, 2019. The firm is engaged in the trading of cut and polished diamonds (CPD). The firm is promoted by Mr. Sunil Kothari and family. The day to day operations are managed by Mr. Sanju Kothari.

Analytical Approach

Acuite has consolidated the financial and business risk profile of Pooja Diam LLP (erstwhile Pooja Exports) along with its associate enterprises, Sidds Jewels Private Limited (SJPL), Sidds Jewels LLP (SJL), together referred to as Pooja Group, to arrive at the rating. The consolidation is in the view of common promoters, same line of business and operational synergies. Pooja Exports supplies polished diamonds to SJPL and SJL, which in turn manufactures diamond studded jewellery. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced promoters and established presence in the industry**

The Pooja Group has its established presence in the Gems & Jewellery business for over two decades. The group is engaged in the trading of Cut and Polished diamonds and also manufacture of diamond studded jewellery. The trading business is undertaken from Pooja Exports and the manufacture of jewellery from SJPL and SJL. The manufacturing facility is located at Seepz, Mumbai. The group is promoted by Kothari Family, Mr. Sunil Kothari and Mr. Sanju Kothari. The partners have an experience of over four decades in Gems & Jewellery Industry. Mr. Sanju Kothari is a current member of the Diamond Panel of the Gem and Jewellery Export Promotion Council (GJEPC) and also a convener of the Banking, Insurance & Taxation committee (BITC) of the GJEPC. The group has reputed and diversified customer base with presence across USA, UAE, Hong Kong, Europe, among other geographies. The long presence of the group in the Gems & Jewellery business has led to strong relationships with its customers resulting in repeat sales. Acuite believes the group will continue to benefit from its established presence in the CPD industry, and the promoter's demonstrated ability to sustain a healthy level of operations across various cycles.

- **Moderate financial risk profile**

The financial risk profile continues to remain moderate marked by high net worth, moderate gearing and debt protection measures. The Tangible net worth stood at Rs. 460.62 crores as on 31 March 2020 (Provisional) as against Rs. 415.66 crore as on 31 March, 2019 and Rs. 380.83 crore as on 31 March, 2018. The improvement in net worth is attributable to healthy accretion to reserves over the period. The gearing stood moderate at 2.17 times as on 31 March 2020 (Provisional) as against 2.24 times as on 31 March, 2019 and 2.37 times as on 31 March, 2018. The total borrowings of Rs 1,000.85 crore as on 31 March, 2020 (Provisional) comprises of short term borrowings of Rs. 1,000.32 crores, term loan of Rs. 0.11 crores and Rs. 0.42 crores of unsecured loans from directors. The net cash accruals stood at Rs. 47.25 crore for FY2020 (Provisional) as against no major debt repayment. The interest coverage ratio (ICR) stood at 2.05 times in FY2020 (Provisional) as against 1.89 times in FY2019 and 2.33 times in FY2018. The total outside liabilities to tangible net worth stood at 3.19 times as on 31 March 2020 (Provisional) as against 3.04 times as on 31 March, 2019. Acuite believes that the financial risk profile will continue to remain moderate over the medium to long term due to large scale of operations, moderate debt protection measures and stable profitability.

Weaknesses

- **Working capital intensive operations**

The operations of the group are working capital intensive marked by high Gross Current Asset (GCA) of 261 days in FY2020 (Provisional) as compared to 228 days in FY2019. The GCA days are mainly dominated by receivables period of 213 days in FY2020 (Provisional) as against 192 days in FY2019 and 159 days in FY2018. The inventory holding period has increased to 39 days in FY2020 (Provisional) as against 29 days in FY2019. The elongation is mainly on account of nationwide lockdown and elongation in receivables. The working capital cycle is high owing to the inherent nature of the industry. However, the company reliance is higher on bank limit utilisation which stood at ~ 92.94 percent for the last six months ended as on September 2020. Further, the time taken to recover export receivables in the second half of fiscal 2021 will be an important aspect in its liquidity profile. Acuite believes that the group's ability to adequately manage its working capital cycle supported by adequate infusion of funds by the promoters on a timely manner will remain a key rating sensitivity factor.

The outbreak of COVID-19 pandemic followed by lockdown situation in the country as well as in key markets like Hong Kong, USA, and Europe have led to a considerable impact on the working capital position of the Pooja group. The recent Reserve Bank of India (RBI) announcement on tenure extension of exports bills has enabled banks to extend certain concessions to their borrowers who have been impacted by the pandemic. The management of the group has been in discussion with its lenders to reduce the impact of these events on their liquidity position. The timely support from the lenders in providing additional support, including the extension of the due dates of the export bills will be critical for the sustainability of the business and stability of the credit profile.

• **Operating performance susceptible to discretionary consumer spending in key markets, slowdown due to pandemic and intensely competitive industry**

The group derives its revenues mainly through exports. The demand for cut and polished diamonds 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 same is visible due to pandemic, sluggish demand and realization in industry. The operating performance of players like Pooja group was severely impacted in the first two quarters of FY2021. The recent instances of delinquencies in the gems and jewellery sector have also impacted the approach of the lenders to this sector. Such events are likely to impact the future credit flow to the sector and the cost of credit. The CPD segment has witnessed intense competition with the presence of large and small players. Emergence of new substitutes like lab-grown diamonds is also likely to have a bearing on the demand for CPD's. Also, the industry is likely to witness fall by 25 to 30 percent due to slowdown in demand and import restrictions in the current fiscal. Acuite 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

- Stretch in liquidity due to elongation of receivables
- Support from lenders on the extension of export bills
- Infusion of long term funds, thereby, reducing significant debt levels

Liquidity Position: Stretched

The liquidity of Pooja Group is currently impacted and the stress is expected to continue till the recovery in demand and operating cash flows. The group has debt obligations towards the clearing of export bills maturing in the near term. Further elongation in these export bills has put further pressure on group's financial flexibility. The management is in discussions with the lenders to manage the current liquidity mismatch and ensure an orderly dissolution of the outstanding export bills. The stance of the lenders will be critical in this regard. Acuite believes the group will require a significant realignment in its exports bills falling due in near term commensurate with the pandemic scenario and the consequent impact in its operating cash flows. The liquidity is expected to be partly supported by capital infusion from the promoters.

Outlook:

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2,638.73	2,627.46
PAT	Rs. Cr.	44.40	37.84
PAT Margin	(%)	1.68	1.44
Total Debt/Tangible Net Worth	Times	2.17	2.24
PBDIT/Interest	Times	2.05	1.89

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

None

Any other information

None

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
21-Oct-2020	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Post Shipment Credit	Long Term	559.20	ACUITE BBB+/Negative (Reaffirmed; Outlook revised)
24-Jun-2019	Post Shipment Credit	Long Term	539.47	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Proposed Post Shipment Credit	Long Term	19.73	ACUITE BBB+/Stable (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	Not Applicable	Not Applicable	Not Applicable	582.73 (enhanced from 559.20)	ACUITE BBB (Downgraded, Watch With negative implications)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.71 (enhanced from 5.00)	ACUITE A3+ (Downgraded; Watch with Developing Implications)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE BBB (Assigned, Watch With negative implications)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,383 credit 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 Mumbai.

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