

Press Release

Pooja Diam LLP (Erstwhile Pooja Exports)

March 08, 2021

Rating Downgraded and Removed from rating watch



Total Bank Facilities Rated*	Rs.598.34 Cr.
Long Term Rating	ACUITE BBB-/Negative (Downgraded and Removed from rating watch)
Short Term Rating	ACUITE A3 (Downgraded and Removed from rating watch)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 598.34 crores bank facilities of M/s Pooja Diam LLP (Erstwhile Pooja Exports). In addition, Acuité has removed the rating watch on the bank facilities of the company. The outlook is '**Negative**'.

Revision in ratings

Acuité has closely monitored the ratings of M/s Pooja Diam LLP over the period and downgraded the ratings along with removal from rating watch. The rating revision is primarily driven by continuous elongation in the bill discounted receivables as well as deterioration in overall liquidity profile of the group. Also, continuous decline in cash flow from operations during the last three years period through FY2020, has resulted in limited financial flexibility. Moreover, group's operations have been severely impacted due to pandemic in first two quarters of FY2021, resulting in loss of orders and revenues. The group has registered lower revenue of Rs. 1,590.86 crore in 11MFY2021 (Provisional) as against Rs. 2,638.73 crores in FY2020. Thus, resulting in deterioration in overall operating performance of the combined entity in current year, i.e. FY2021.

Secondly, tepid market conditions marked by further elongation of its already stretched receivables and discretionary spending by customers has resulted in prolonged operating cycle. The rating continues to factor in high levels of working capital utilization, customer concentration risk, volatility associated with diamond and gold prices and exposure of profitability towards foreign exchange fluctuation risk. Further intensification of receivables and liquidity pressures in near term situation will have negative bias to the rating. Acuité believes timely release of the additional lines and extension of export bills by the lenders in timely manner will be critical to mitigate the near term liquidity pressures of the group. Acuite will closely monitor the current liquidity and receivable levels which are expected to realize in time bound manner. Any delay in realization of receivable for its already discounted bills for which the due dates have already been extended in accordance with the Reserve Bank of India circular as a COVID relief measure.

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 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

Acuité 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 in manufacturing of diamond studded jewellery. The trading business is undertaken from Pooja Exports and the manufacturing 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 March 31, 2020 as against Rs. 415.66 crore as on March 31, 2019. The improvement in net worth is attributable to accretion of profits to reserves over the period. The gearing stood higher at 2.37 times as on February 28, 2021 (Provisional) as against 2.17 times as on March 31, 2020 as against 2.24 times as on March 31, 2019. The total borrowings has increased to Rs. 1016.93 crores as on February 28, 2021 (Provisional) as against Rs 1,000.85 crore as on March 31, 2020. The net cash accruals stood at lower at Rs. 30.77 crore for 11mFY2021 as against Rs. 47.25 crore for FY2020 as against no major debt repayment. The interest coverage ratio (ICR) stood at 2.05 times in FY2020 as against 1.89 times in FY2019. The total outside liabilities to tangible net worth stood high at 3.44 times February 28, 2021 (Provisional) as against 3.13 times as on March 31, 2020 and 3.04 times as on March 31, 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

• Elongation in receivables and customer concentration risk

Pooja Group's operations are working capital intensive in nature marked by Gross Current Assets (GCA) of 258 days in FY2020 as compared to 228 days in FY2019. The GCA days are mainly dominated by receivables period of 210 day in FY2020 as against 192 days in FY2019. Further, continuous unwinding of bills discounted receivables has resulted in limited financial flexibility for the group. Tepid market conditions and impact of pandemic has resulted in prolonged operating cycle and stimulated elongation of receivables. Further, clients consider credit days from date of receipt of goods and for banking date of invoice is considered. From raising of invoice date to date of dispatch/delivery there is 15 -20 days lag. Further, all banks had raised tenor of bills to 180 days from 150 days in previous year, but further elongation in persist from regular extension of bills.

Also, group is exposed to customer concentration risk as it deals with limited customers since inception. Its top five customers constitute to around 80 to 85 percent of total sales in the last three years period ended FY2020. Hence, group remains highly dependent on its top five customers for its revenues, increasing its susceptibility to order volatility risks and limits flexibility in terms of churning of receivables. The same is evident through aggravated levels of customer concentration in current year. However, the risk is mitigated to some extent as it has an established longstanding relationship with the clients spanning to over a decade.

• **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 were severely impacted in first two quarters of FY2021. The recent instances of delinquencies in the gems and jewellery sector has 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 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, industry is likely to witness fall by 30 to 35 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 profile due to further elongation of receivables
- Weakening of support from lenders on the extension of export bills
- Infusion of long term funds, thereby reducing significant debt levels
- Further increase in debt level leading to deterioration of financial risk profile

Liquidity Position: Stretched

The Group's liquidity profile stretched marked by more than 95 percent of average utilization of bank limits and modest cash accruals. The group has significant debt obligations towards the clearing of export bills maturing in the near term. Further elongation in these export bills would put further pressure on group's financial flexibility. The management has sought regular extension of these bills 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. Acuite believes that the capital infusion from the promoters is likely to partly support the current liquidity levels of the group.

Outlook: Negative

Acuite has kept the outlook of Pooja group revised to 'Negative' on account of expected deterioration in operating performance, tepid market conditions and further elongation in already stretched receivables. However, group will benefit over the medium term from its experienced promoters and established presence in the industry. The outlook may be revised to 'Stable' if the group is able to sustain its operating performance while achieving sustained improvement in Profitability margins, capital structure and working capital management. Conversely, the rating may be downgraded in case of further elongation in already stretched receivables coupled with limited financial flexibility and higher than expected reliance on working capital limits and/or deterioration in the financial risk profile as well as the liquidity of the group.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	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
28-Oct-2020	Post Shipment Credit	Long Term	582.73 (enhanced from 559.20)	ACUITE BBB (Downgraded, Watch With negative implications)
	Bank Guarantee	Short Term	14.71 (enhanced from 5.00)	ACUITE A3+ (Downgraded; Watch with Developing Implications)
	Proposed Bank Facility	Long Term	0.90	ACUITE BBB (Assigned, Watch With negative implications)
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	148.67	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	122.00*	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	98.42	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post	Not Applicable	Not Applicable	Not Applicable	50.24	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)

Shipment Credit					Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	40.77	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	38.38	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	27.40	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	26.85	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.03	ACUITE A3 (Downgraded and Removed from Rating watch)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.68	ACUITE A3 (Downgraded and Removed from Rating watch)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)

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About Acuite Ratings & Research:

Acuite 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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