

Press Release

Pooja Diam LLP (Erstwhile Pooja Exports)



May 25, 2021

Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE D**' (**read as ACUITE triple D**) and '**ACUITE C**' (**read as ACUITE C**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE A3**' (**read as ACUITE A three**) for the Rs. 598.34 crores bank facilities of M/s Pooja Diam LLP (Erstwhile Pooja Exports).

Revision in Ratings

Acuité has closely monitored the ratings of Pooja group over the period and downward revision in the rating factors in the unfavorable debt-serving track record of the group in the recent past, as confirmed by the lenders. Pooja Group is yet to clear the overdues pertaining to the already extended discounted export bills beyond the period allowed under the Reserve Bank of India's circular (Dated - May 23, 2020, Ref. RBI/2019-20/246) as covid relief measure. The rating is also impacted by short term challenges faced by the group to maintain stable liquidity profile and efficiently manage its working capital cycle. The rating revision also considers the impact of second wave of pandemic resulting in continued delays in realization of export bills. The group has also availed additional funding under emergency credit lines provided by the existing lenders under RBI guidelines to the tune of Rs. 102.59 crores in FY2021 and Q1FY2022 to manage short term liquidity pressures. Also, continuous decline in cash flow from operations during the last three years' period through FY2021 (Provisional), has resulted in limited financial flexibility.

Moreover, group's operations were severely impacted due to pandemic and nationwide lockdown in first two quarters of FY2021, resulting in loss of orders and revenues. The group has registered decline in revenue to Rs. 1610.55 crores in FY2021 (Provisional) as against Rs. 2,638.73 crores in FY2020 which in turn has impacted the net cash accruals. Secondly, uncertainty in the Gems & Jewelry industry, tepid market conditions, and second wave of pandemic along with discretionary spending behavior of customers is likely to result in further elongation of its already stretched export receivables beyond current levels. The ratings continue to factor in high levels of working capital utilization, increase in debt levels, customer concentration risk, volatility associated with diamond and gold prices and exposure of profitability towards foreign exchange fluctuation risk. However, the ratings continue to factor in promoters' experience in the gems and jewellery business with a track record of over two decades in the industry.

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, common finance and administration team, 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 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. Acuité 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.

Weaknesses

- Unfavorable debt-serving track record of the group**

The downward revision in the rating considers unfavorable debt-serving track record of the group in the recent past, as confirmed by the lenders. The rating downgrade is based on recent interactions/feedback received from existing lenders of group, confirming overdue in the already extended discounted export bills beyond the period allowed (beyond 450th day extension) under the RBI guidelines as covid relief measure. The group has faced short term challenges to maintain stable liquidity profile amidst of second wave of pandemic resulting in higher working capital requirements and additional funds required to manage operations.

- 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 days in FY2020 as against 192 days in FY2019. The same is expected to be in the range of 300 to 400 days in FY2021 (Provisional) on account of prolonged operating cycle due to pandemic. Further, continuous unwinding of bills discounted receivables has resulted in limited financial flexibility for the group. Tepid market conditions and impact of second wave of pandemic has resulted in prolonged operating cycle and stimulated further 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 still persist from regular extension of bills. The bank limit utilisation which stood high at ~ 95.00 percent for the last six months ended as on March 2021.

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 FY2021 (Provisional). Hence, group remains highly dependent on its top five customers for its revenues, increasing its susceptibility to order volatility risks in future 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 slowdowns 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 from sluggish demand and elongation in realization of receivables in the industry due to pandemic. The operating performance of players like Pooja group were severely impacted in first two quarters of FY2021 and still remains uncertain amid second wave of pandemic in FY2022. 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 has witness fall in demand by 30 to 35 percent due to slowdown and import restrictions in FY2021 and expected to be impacted in FY2022 due to second wave of pandemic. Acuité believes that the ability of Pooja group to sustain revenue growth while maintaining profitability and efficiently managing working capital cycle will remain the key rating sensitivities.

Rating Sensitivities

- Regularisation of overdue export bills on a sustained basis (more than three months), following improvement in liquidity profile of the group
- Stretch in liquidity profile due to further elongation of already stretched receivables
- Weakening of support from lenders on the extension of export bills in a timely manner
- 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 is stretched marked by more than 95.00 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. The 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 and availed additional covid loans to manage the current liquidity mismatch and ensure an orderly dissolution of the outstanding as well as overdue export bills. The stance of the lenders will be critical in this regard. Further, the total borrowings have increased to Rs. 1022.70 crores as on March 31, 2021 (Provisional) as against Rs 1,000.85 crore as on March 31, 2020. The net cash accruals stood lower at Rs. 22.00 crore approximately for FY2021 (Provisional) as against Rs. 47.25 crore for FY2020. Acuité 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 will partly support the current liquidity levels of the group.

Outlook:

Not Applicable

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
08-Mar-2021	Post Shipment Credit	Long Term	148.67	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	122.00	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	98.42	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	50.24	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	40.77	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	38.38	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	30.00	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	27.40	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Post Shipment Credit	Long Term	26.85	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
	Bank Guarantee	Short Term	10.03	ACUITE A3 (Downgraded and Removed from Rating watch)
28-Oct-2020	Bank Guarantee	Short Term	4.68	ACUITE A3 (Downgraded and Removed from Rating watch)
	Proposed Bank Facility	Long Term	0.90	ACUITE BBB-/Negative (Downgraded and Removed from Rating watch)
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 D (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	122.00*	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	98.42	ACUITE D (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	50.24	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	40.77	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	38.38	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	27.40	ACUITE C (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	26.85	ACUITE C (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.03	ACUITE D (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.68	ACUITE D (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE C (Downgraded)

* Includes SLC of Rs.15.05 crores and adhoc CC of Rs. 9.00 crores

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About Acuité Ratings & Research:

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