

Press Release

Red Exim

September 21, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.40.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A Three plus**) to the Rs.40.00 Cr bank facilities of Red Exim(RE). The outlook is '**Stable**'.

Rationale for the Rating

The rating takes into account the extensive experience of partners and healthy financial risk profile. The rating also draws comfort from the benefits RE derives from positive trend in the gems and jewelry industry. These strengths are partially offset by its working capital intensive nature of business and inherent risk of capital withdrawal. Going forward significant improvement in the scale of operations without any deterioration in the profitability and capital structure or elongation in working capital cycle will be a key monitorable.

About the Firm

Constituted in 2010, RE is a Mumbai based partnership firm established by Mr. Sujal Shah and Mr. Heman Shah. It is engaged in cutting and polishing of diamonds. The Firm procures its rough diamonds from both mining companies as well as secondary markets. Imports constitute around 60-75 percent of its total requirement and exports range between 65-75 percent of its total sales. RE primarily caters to East Asian region mainly Hongkong, Taiwan and China. It deals in range of 0.003 to 3 carats diamonds.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RE for arriving at this rating.

Key Rating Drivers

Strengths

- **Extensive experience of the partners and established track record of operations**

Constituted in 2010, RE is a partnership firm formed by brothers Mr. Sujal Shah and Mr. Heman Shah. Both have an industry experience of over three decades. Mr. Sujal Shah worked in Antwerp in the diamond assortment industry till 1995 and thereafter started his own diamond business. Mr. Heman joined Mr. Sujal Shah in 2010 to start RE. Prior to RE Mr. Heman Shah worked with a diamond company in its international sales department. Both the partners are actively involved in day-to-day operations of the Firm and are duly supported by a team of experienced middle level managers and staff. The Firm's operating income ranged between Rs.495-580 Cr during the period FY2018-FY2021 and its operating profitability ranged between 2.94-4.27 percent during the same period. The firm imports around 60-75 percent of its rough diamonds requirement from both mining companies as well as secondary markets. RE has an annual contract with Dominion Diamonds for supply of rough diamonds. The Firm aims to increase its direct procurements over the medium term. RE sells to both diamond traders and jewelry manufacturers, with exports constituting around 65-75 percent of its total sales. Major export markets include Hongkong, China, Taiwan, South Korea and USA. RE is also a member of Responsible Jewellery Council (RJC).

Acuité believes that RE will continue to benefit from the extensive experience of its partners and its established track record of operations.

- **Healthy financial risk profile**

The Firm has a healthy financial risk profile marked by healthy net worth, low gearing and healthy debt

protection metrics. The tangible net-worth stood at Rs. 194.57 Cr as on March 31, 2021 as against Rs.182.66 Cr as on March 31, 2020 and Rs.173.14 Cr as on March 31, 2019. The management follows a conservative debt policy with gearing in the range of 0.15-0.18 times for period FY2019-FY2021. The total debt as on March 31, 2021 of Rs.29.68 Cr comprises of unsecured loans of Rs.16.68 Cr, vehicle loans of Rs.0.02 Cr and short term borrowings of Rs.12.98 Cr. The gearing is expected to remain low over the medium term in the absence of any major debt funded capex and given management's conservative debt policy. The interest coverage stood high at 34.97 times for FY2021 as against 23.28 times for FY2020 and 12.92 times for FY2019. NCA to Total Debt ratio stood at 0.47 times as on March 31, 2021 as against 0.33 times as on March 31, 2020 and 0.26 times as on March 31, 2020.

Acuité believes RE's financial risk profile will remain healthy over the medium term in absence of any major debt-funded capex plan.

- **Stable operating performance**

The Firm's operating income ranged between Rs.500 Cr - Rs. 580 Cr in the period FY2018-FY2020. The Firm generated operating income of Rs.495.72 Cr in FY2021. The decline in operating income in FY2021 is attributable to impact of Covid-19 pandemic. The firm's operations were impacted during the 1st two months of the pandemic i.e during April and May, 2020. However, the cut and polished diamond industry has recorded a strong recovery post reopening of economies globally, earlier locked as a part of measures taken to curtail the spread of Covid-19 pandemic. As per GJEPC report, net exports of cut and polished diamonds have registered a growth of 60.55 percent in Q1FY2022 to \$1360.85 million from \$847.62 million during Q1FY2020. In line with the industry trend, RE also has recorded robust sales in Q1FY2022. It generated a top line of Rs.185 Cr till 30 June, 2021, which improved to RS. 275 Cr till 15 August, 2021. The operating profitability stood at 4.27 percent in FY2021 as against 3.29 percent in FY2020 and 2.94 percent in FY2019. The improvement in profitability is driven by foreign exchange gain of Rs.8.80 Cr and Rs. 6.00 Cr earned in FY2021 and FY2020 respectively as against forex loss of Rs. 0.94 Cr in FY2019. The net profit margins improved to 2.51 percent in FY2021 as against 1.94 percent in FY2020 and 1.27 percent in FY2019.

Acuité believes that in view of the past operating performance of RE and positive trends in the gems and jewelry industry, RE will generate moderate growth in its current scale of operations and profitability over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

RE's operations are working capital intensive in nature as reflected by its gross current asset days of 213 days as on March 31, 2021 as against 196 days as on March 31, 2020 and 158 days as on March 31, 2019. The GCA days are driven by inventory and debtor days. The debtor days rose to 97 days as on March 31, 2021 as against 65 days as on March 31, 2020 and 60 days as on March 31, 2019. The inventory days stood at 110 days as on March 31, 2021 as against 128 days as on March 31, 2020 and 96 days as on March 31, 2019. However, reliance on external borrowings to fund its working capital requirements is modest. The average bank limit utilization of its fund based facilities for the twelve months ended July, 2021 was 32 percent. The creditor days stood at 65 days as on March 31, 2021 as against 52 days as on March 31, 2020 and 38 days as on March 31, 2019.

Acuité believes RE's ability to restrict further elongation in working capital cycle will be a key rating sensitivity.

- **Susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk**

Due to high inventory holding period, the Firm runs an inherent risk of volatility in raw material prices. The Firm imports 60-75 percent its raw material requirement i.e. rough diamonds and exports around 65-75% of its total sales. While the forex risk on exports is largely covered against imports, the price volatility risk in rough diamond threaten the thin profitability margins of the company due to long working capital cycles

- **Inherent risk of capital withdrawal in a partnership firm**

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm. However, this is mitigated to some extent as in the last 3 three years since FY2019, the partners have infused Rs. 14.43 Cr in FY2019 and withdrawn Rs. 0.25 Cr in FY2020 and Rs. 0.56 Cr in FY2021.

RE generated net cash accruals of Rs.13.83 Cr and Rs.10.59 Cr in FY2021 and FY2020 respectively while it had no significant debt obligation to pay during the same period. The cash accruals of the Firm are expected to remain in the range of Rs.15.00-19.00 Cr over the medium term against no significant repayment obligations. However, the business of the firm is working capital intensive with gross current asset (GCA) days of around 213 days in FY2021. However, reliance on external working capital borrowings is lower with average bank limit utilization of its fund based facility for the twelve months ended July, 2021 stood at 32 percent. The unencumbered cash and bank balance and fixed deposits stood at Rs.0.47 Cr and Rs.5.14 Cr respectively as on March 31, 2021. The current ratio was 2.99 times as on March 31, 2021. Acuité believes that the liquidity of the Firm is likely to remain adequate over the medium term on account of comfortable cash accruals constrained to some extent by working capital intensive nature of operations and no major debt funded capex plan over the medium term.

Material Covenants

None

Rating Sensitivities

- Ability to improve its scale of operations while maintaining its profitability and capital structure
- Any further elongation in its working capital cycle

Rating Outlook: Stable

Acuité believes that RE will maintain a 'Stable' outlook over medium term on account of extensive experience of its partners and healthy financial risk profile. The outlook may be revised to 'Positive' in case the Firm achieves higher than expected improvement in its scale of operations while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of slower than expected growth in scale of operations or any further elongation in its working capital cycle impacting its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	495.72	504.35
PAT	Rs. Cr.	12.46	9.77
PAT Margin	(%)	2.51	1.94
Total Debt/Tangible Net Worth	Times	0.15	0.18
PBDIT/Interest	Times	34.97	23.28

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

Not Applicable

Any other information

None

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)

Not Applicable

***Annexure – Details of instruments rated**

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Saraswat Bank	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3+ (Assigned)
Proposed Bank Facility	Proposed Long Term Bank	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Salony Goradia Sr. Analyst - Rating Operations Tel: 022-49294000 salony.goradia@acuite.in	

About Acuité Ratings & Research:

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