

Press Release

Red Exim

September 05, 2022

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	27.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	30.00	-	ACUITE A3+ Reaffirmed
Bank Loan Ratings	32.50	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned and reaffirmed 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.100.00 Cr bank facilities of Red Exim(RE). The outlook is 'Stable'.

Rationale for reaffirmation

The rating reaffirmation takes into account the improvement in operating performance of RE in FY2022. The operating income of the Firm improved to Rs. 739.40 Cr in FY2022 as against Rs.495.72 Cr in FY2021. The operating margin remains stable, as it ranged between 4-4.5 percent during the last two years. The financial risk profile of the Firm continues to remain healthy, albeit slight decline in gearing and debt protection metrics in FY2022 vis-à-vis FY2021. Going forward sustenance of the improved scale of operations while maintaining the capital structure and elongation in working capital cycle will be a key monitorable.

About the Company

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 40 percent of its total requirement and exports range between 57 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

Acuite 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 revenue improved to Rs.739.40 Cr in FY2022, registering a growth of 50 percent as against revenue of Rs.495.72 crore in FY2021. The operating profitability remained stable as it stood at 4.42 percent in FY2022 as against 4.27 percent in FY2021.

The firm imports around 40 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 57 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 net worth increased to Rs. 213.92 crores as on March 31, 2022 as against Rs. 194.57 crore as on March 31, 2021. The management follows a conservative debt policy with gearing in the range of 0.15-0.18 times for period FY2019-FY2021, however it slightly increased to 0.36 times in FY2022. The total debt of Rs.78 crore as on March 31, 2022 consists of short term debt obligations of Rs.39.46 crore and unsecured loans from directors and promoters of Rs. 38.54 crore. The debt protection metrics moderated in FY2022 vis-à-vis FY2021, marked by interest coverage ratio of 23.94 times in FY2022 as against 34.97 times in the previous year 2021. The NCA to Total Debt stood at 0.26 times in FY2022 as against 0.47 times in FY2021.

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

Weaknesses

Working capital intensive nature of operations

The operations of Red Exim are working capital intensive reflected by Gross Current Assets (GCA) of 193 days as on March 31, 2022 as against 213 days as on March 31, 2021. The GCA days are driven by high inventory days and moderate debtor days. Inventory holding days rose to 144 days as on March 31, 2022 as against 110 days as on March 31, 2021. The debtor days stood at 47 days as on March 31, 2022 as against 97 days as on March 31, 2021. The average utilisation of working capital bank limits stood at ~61.78 percent for ten months ended as on June 2022. The creditor days stood at 61 days as on March 31, 2022 as against 65 days as on March 31, 2021.

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

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 40 percent its raw material requirement i.e. rough diamonds and exports around 57 percent 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.

Rating Sensitivities

- > Sustenance of the improved scale of operations while maintaining the profitability margins and capital structure
- > Elongation in its working capital cycle

Material covenants

None

Liquidity Position: Adequate

Red Exim generated cash accruals of Rs.20.81 Cr in FY2022 and Rs.13.83 Cr in FY2021 against no significant maturing debt obligations during the same period. The cash accruals of the company are estimated to remain in the range of around Rs.24-26 Cr during FY2023-24 against no significant repayment obligations. However, the operations of Red Exim are working capital intensive as reflected by Gross Current Assets (GCA) of 193 days as on March 31, 2022. The average utilisation of working capital bank limits was moderate, as it stood at ~61.78 percent for ten months ended as on June 2022. The unencumbered cash and bank balance stood at Rs. 0.18 crore in FY2022. The current ratio was 2.46 times as on March 31, 2022.

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.

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 operating performance while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its operating performance or capital structure or any further elongation in its working capital cycle impacting its liquidity profile

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	739.40	495.72
PAT	Rs. Cr.	19.44	12.46
PAT Margin	(%)	2.63	2.51
Total Debt/Tangible Net Worth	Times	0.38	0.15
PBDIT/Interest	Times	23.94	34.97

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2021	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Post Shipment Credit	Short Term	30.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A3+ Assigned
Saraswat Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3+ Reaffirmed
Saraswat Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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