

Press Release

Red Exim

October 03, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.50	ACUITE BBB Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	62.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the 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 revised to '**Positive**' from '**Stable**'.

Rationale for change in outlook

The revision in outlook factors the steady performance as reflected in the 5MFY23 period by the firm and Acuite's expectation of sustenance of performance over the near to medium term. The operating income grew at a compounded annual growth rate (CAGR) of 13.60% over the last three years through FY 22. The firm in the current year has already recorded revenue of Rs.353.43 Cr till August, 2022 i.e. ~47.80 percent of the firm's operating income in FY 2022. At the same time the operating margin expanded by 82 bps to 5.24 percent in the current year as against 4.42 percent in FY2022. Acuite believes that the operating performance of the firm is likely to remain strong over the near to medium term on account of recovery in the demand for cut and polished diamonds. Acuite believes that healthy revenue growth coupled with higher operating margins is likely to lead to improvement in the financial risk profile of the firm over the medium term. Acuite will continue to monitor the sustenance of the growth demonstrated by the firm over the near term, while ensuring a balanced working capital cycle, particularly the receivables.

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

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 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 financial risk profile of the firm is healthy marked by moderate networth, low gearing and healthy debt protection indicators.

The net worth of the firm is moderate at Rs. 213.92 crores as on March 31, 2022 as compared to Rs.194.57 crores as on March 31, 2021. The improvement in net worth of the firm is attributable to moderate accretion to reserves. Acuite believes that the net worth levels are likely to remain in the range of Rs.236.94 – Rs.261.38 crores over the near to medium term.

The firm has followed a conservative financial policy in the past as is reflected by the peak gearing levels of 0.38 times as on March 31, 2022. The current gearing levels have increased from 0.15 times as on March 31, 2021 on account increase in its incremental working capital requirement for the increase in its scale of operations. The gearing levels are estimated to remain in the range of 0.32-0.35 times as with gearing in the range of 0.15-0.18 times for period FY2019-FY2021. 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 remains healthy, marked by interest coverage ratio of 23.94 times in FY2022. 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 large increase in incremental working capital requirements.

Weaknesses

Working capital intensive nature of operations

The operations of RE 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 firm 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

RE 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 firm 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 RE 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 : Positive

The revision in outlook reflects sustenance of improved operating performance, leading to improvement in financial risk profile. The rating may be upgraded 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 'Stable' in case of 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)

Care Ratings, vide its press release dated October 21, 2021, rated Red Exim 'CARE BB+/A4+; ISSUER NOT COOPERATING'.

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>
- 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
05 Sep 2022	Post Shipment Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Packing Credit	Short Term	22.50	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	27.50	ACUITE BBB Stable (Assigned)
	Post Shipment Credit	Short Term	30.00	ACUITE A3+ (Reaffirmed)
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+ Reaffirmed
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+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Positive Reaffirmed Stable to Positive
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB Positive Reaffirmed Stable to Positive

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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