

Press Release

Davariya Brothers Private Limited

October 13, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB+**' (**read as ACUITE Double B plus**) to the Rs.25.00 Cr bank facilities of Davariya Brothers Private Limited (DBPL). The outlook is '**Stable**'.

Rationale for the Rating

The rating assigned takes into account the extensive experience of management, long track record of operations and moderate financial risk profile of DBPL. The rating also draws comfort from the benefits DBPL derives from positive trend in the gems and jewelry industry. These strengths are partially offset by its working capital intensive nature of business. 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 Company

DBPL is a Mumbai based company engaged in cutting and polishing of diamonds. Started as a partnership firm in 1986 by Mr. Manubhai B. Davariya and Mr. Chandubhai Davariya, it was subsequently incorporated into a company in 2012. DBPL is currently managed by the founders along with their brothers and sons. The Company has a production facility at Surat with a total cutting and polishing capacity of ~15000 carats per month. The Company deals in both natural diamonds as well as lab grown diamonds of size less than 50 points. These diamonds are largely used in jewelry, watches and other luxury products. DBPL caters to both domestic as well as overseas markets with exports forming 30-55 percent of revenues for three-year period through FY2021. It primarily exports to Hong Kong, USA and Belgium.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management and long track record of operations**

DBPL was established as a partnership firm in 1986 by Mr. Manubhai B. Davariya and Mr. Chandubhai Davariya, prior to being incorporated as a private limited company in 2012. DBPL is currently owned and managed by the founders along with their brothers and sons. The management company has an industry experience of over three decades. DBPL's operating income ranged between Rs.296-Rs.365 during the period FY2019-2021 and its operating profitability ranged between 4.07-6.49 percent during the same period. During H1FY2021, most economies across the globe were closed under the Covid-19 induced lockdowns. This affected many industries adversely as global trade was briefly shut, there were restrictions on movements which caused disruptions in labour supply. Post the reopening of economies H2FY2021 onwards, recovery was fast paced. 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, DBPL also recorded robust sales in FY2022. It generated a top line of Rs.157.55 Cr till July, 2021 i.e ~45 percent of its total operating income of FY2021. The Company exports 30-55 percent of its total sales primarily in the markets of Hongkong, USA and Belgium. It trades as well as processes both natural and lab grown diamonds of size less than 50 points. It procures rough diamonds from the secondary market, out of which imports constitute around 40-60 percent.

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

- **Moderate financial risk profile**

DBPL has a moderate financial risk profile marked by modest gearing and moderate debt protection metrics. DBPL's overall gearing stood at 1.77 times as on March 31, 2021 (Provisional) as against 1.90 times as on March 31, 2020 and 2.17 times as on March 31, 2019. The total debt of Rs.144.18 Cr as on March 31, 2021 (Provisional) included Rs.96.02 Cr of short term bank borrowings, Rs.0.09 Cr of long term borrowings and Rs.48.07 Cr of unsecured loan from directors and promoters. The tangible net-worth stood at Rs.81.30 Cr as on March 31, 2021 (Provisional) as against Rs.76.33 Cr as on March 31, 2020 and 73.43 Cr as on March 31, 2019. After adjusting for unsecured loans, the adjusted overall gearing as on March 31, 2021 (Provisional) stands at 1.18 times as against 1.27 times as on March 31, 2020 and 1.55 times as on March 31, 2019. The Total Outside Liabilities to Tangible Net worth ratio was 2.72 times as on March 31, 2021 (Provisional) as against 3.20 times as on March 31, 2020 and 2.69 times as on March 31, 2019. The interest coverage improved to 2.07 times as on March 31, 2021 (Provisional) as against 1.55 times as on March 31, 2020 and 1.57 times as on March 31, 2019. The DSCR for FY2021 (Provisional) was 1.85 times as against 1.43 times for FY2020 and 1.44 times for FY2019. The NCA to Total Debt stood low at 0.05 times as on March 31, 2021 (Provisional) as against 0.03 times as on March 31, 2020 and March 31, 2019. The Debt to EBITDA improved to 7.79 times in FY2021 (Provisional) as against 9.05 times in FY2020 and 8.56 times in FY2019.

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

Weaknesses

- **Working capital intensive nature of operations**

DBPL's operations are working capital intensive in nature as reflected by its gross current asset days of 282 days as on March 31, 2021 (Provisional) as against 286 days as on March 31, 2020 and March 31, 2019. The GCA days are driven by inventory and debtor days. The debtor days increased to 171 days as on March 31, 2021 (Provisional) as against 141 days as on March 31, 2020 and 135 days as on March 31, 2019. The inventory days moderated to 112 days as on March 31, 2021 (Provisional) as against 158 days as on March 31, 2020 and 170 days as on March 31, 2019. The average bank limit utilization of its fund based facility for the twelve months ended July, 2021 was ~85 percent. The creditor days stood at 88 days as on March 31, 2021 (Provisional) as against 113 days as on March 31, 2020 and 54 days as on March 31, 2019.

Acuité believes DBPL'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 Company runs an inherent risk of volatility in raw material prices. The Company imports 40-60 percent of its raw material requirement i.e. rough diamonds and exports around 30-55 percent of its total sales. While, the forex risk on exports is largely covered against imports, the price volatility risk in rough diamonds threaten the thin profitability margins of the company due to long working capital cycles.

Liquidity Position: Stretched

DBPL generated net cash accruals of Rs.7.68 Cr and Rs.4.52 Cr in FY2021 (Provisional) and FY2020 respectively while it had no significant debt repayment obligations during the same period. The cash accruals of the Company are expected to remain in the range of Rs.7.69-10.09 Cr over the medium term against no debt repayment obligations for the same period. The business of the DBPL is working capital intensive with gross current asset (GCA) days of around 282 days in FY2021 (Provisional). The average bank limit utilization of its fund based facility for the twelve months ended July, 2021 stood at ~85 percent. The unencumbered cash and bank balance stood at Rs.2.67 Cr as on March 31, 2021 (Provisional). The current ratio was 1.60 times as on March 31, 2021 (Provisional). Acuité believes that the liquidity of the Company is likely to remain stretched over the medium term on account of elongated working capital cycle of the Company.

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 DBPL will maintain a 'Stable' outlook over medium term on account of extensive experience of its management, long track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case the Company 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 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	346.87	362.77
PAT	Rs. Cr.	4.95	1.69
PAT Margin	(%)	1.43	0.47
Total Debt/Tangible Net Worth	Times	1.77	1.90
PBDIT/Interest	Times	2.07	1.55

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
Andhra Bank	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+/Stable (Assigned)

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About Acuité Ratings & Research:

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