

Press Release

Davariya Brothers Private Limited

October 10, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	117.49	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	25.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	142.49	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) to the Rs. 142.49 Cr bank facilities of Davariya Brothers Private Limited (DBPL). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation is on account of stable operating performance of the company marked by increase in operating income and improvement in working capital cycle. The improvement in operating income is mainly on account of higher realisations. The revenue improved to Rs. 487.25 Cr. in FY22(Prov.) as against Rs. 346.87 Cr. in FY21. The gross current days of the company improved to 192 days as on March 31, 2022(Prov.) as against 281 days as on March 31, 2021. The financial risk profile continues to remain moderate marked by moderate network, moderate gearing coupled with average debt protection metrics.

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 manufacturing 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 cents. The lab-grown diamond segment has been demerged fully into a separate company named- "Diamond Desire" in February, 2020. 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 approx. 50 percent in FY22. It primarily exports to Hong Kong, USA and Belgium.

Analytical Approach

Acuite 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's operations were started in 1986 to process and sell polished diamonds by Mr. Manubhai B. Davariya and Mr. Chandubhai Davariya. DBPL is currently owned and managed by the founders along with their brothers and sons. The management of the company has an industry experience of over three decades. This has helped the company in maintaining good business relations with clients. DBPL exports around 50 percent of its total sales primarily in the markets of Hongkong, USA and Belgium and imports around 30-50 percent of its total requirement of rough diamonds. On the back of stable and repeated orders, the operating income of the company increased to Rs. 487.25 Cr. in FY22 (Prov.) as against Rs. 346.87 Cr. in FY21. The operating margins stood at 4.55 percent in FY22 as against 4.87 percent in FY21. The improvements in FY22 are on account of higher realisations. As per GJEPC report, the net exports of diamond increased to USD 17334 million in FY22(Prov.) as against USD 11794 million in FY2021 and USD 12535 million in FY20. The growth is attributable to steady recovery of demand in key export markets of USA, Europe, Israel and Hongkong, easing of Covid-19 restrictions pertaining to manufacturing in the domestic market and robust consumer demand of jewelry among others. DBPL's operating income stood at Rs. 173.72 Cr for five months period ended August of FY23.

Acuité believes the experience of the promoters and overall industry trend will help the company in maintaining their business risk profile over the near to medium future.

> Moderate financial risk profile

DBPL has a moderate financial risk profile marked by high networth, moderately high gearing and average debt protection metrics. The tangible networth stood at Rs. 88.79 Cr as on March 31, 2022(Prov.) as against Rs. 80.35 Cr as on March 31, 2021. The total debt of Rs. 171.60 Cr as on March 31, 2022(Prov.) includes Rs. 98.17 Cr of short term bank borrowings, Rs. 27.30 Cr of long term borrowings and Rs. 46.13 Cr of unsecured loan from directors and promoters. DBPL's overall gearing stood at 1.93 times as on March 31, 2022(Prov.) as against 1.79 times as on March 31, 2021. The Total Outside Liabilities to Tangible Net worth ratio was 2.29 times as on March 31, 2022(Prov.) as against 2.75 times as on March 31, 2021. The interest coverage improved to 2.65 times as on March 31, 2022(Prov.) as against 1.96 times as on March 31, 2021. The NCA to Total Debt stood at 0.06 times as on March 31, 2022(Prov.) as against 0.05 times as on March 31, 2021. The Debt to EBITDA improved to 7.53 times in FY22(Prov.) as against 8.21 times in FY2021.

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 continue to remain working capital intensive in nature. However, the working capital cycle has improved during the year marked by gross current asset (GCA) days of 192 days as on March 31, 2022(Prov.) as against 281 days as on March 31, 2021. The GCA days are driven by high inventory and debtor days. The inventory days stood at 104 days as on March 31, 2022(Prov.) as against 111 days as on March 31, 2021. The debtor days stood at 89 days as on March 31, 2022(Prov.) as against 171 days as on March 31, 2021. However, the company's reliance on bank lines to fund its working capital requirement continues to remain moderate, marked by average bank limit utilization of its fund based facility of 75-85 percent during the six months ended August, 2022. The creditor days stood at 25 days as on March 31, 2022(Prov.) as against 89 days as on March 31, 2021.

> 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 45-55 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.

Rating Sensitivities

- Sustaining the growth in scale of operations while maintaining the profitability margins and capital structure
- Elongation in working capital cycle
- Deterioration in liquidity position

Material covenants

None

Liquidity Position: Adequate

The liquidity of the company is adequate marked by comfortable net cash accruals as against debt repayment obligations. The company generated NCA of Rs. 10.80 Cr. in FY22(Prov.) as against Rs. 0.07 Cr. of maturing debt obligations. Going forward, the net cash accruals are expected to remain in the range of Rs. 15-19 Cr. in FY23-24 as against maturing debt obligations of Rs. 5-6 Cr. The company's GCA days stood at 192 days as on March 31, 2022 (Prov.). The current ratio of the company stood at 2.05 times as on March 31, 2022(Prov.). The average utilisation of its fund based working capital facility ranged between 75-85 percent for the six months period ended August, 2022. The unencumbered cash and bank balance stood at Rs. 1.70 Cr. as on March 31, 2022(Prov.).

Acuite believes that the liquidity position would be adequate over the medium term on account of moderate cash accruals as against its repayment obligations

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	487.25	346.87
PAT	Rs. Cr.	8.40	4.00
PAT Margin	(%)	1.72	1.15
Total Debt/Tangible Net Worth	Times	1.93	1.79
PBDIT/Interest	Times	2.65	1.96

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

ICRA, vide its press release dated September 15, 2022 had reaffirmed the rating of DBPL to 'ICRA B+/A4 (Stable); 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
13 Oct 2021	Packing Credit	Long Term	25.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+ Stable Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	13.46	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BB+ Stable Assigned
Punjab National Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	8.40	ACUITE BB+ Stable Assigned
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	64.73	ACUITE BB+ Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	27.30	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

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