

Press Release

Davariya Brothers Private Limited

November 04, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	142.49	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	142.49	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to **'ACUITE BBB-' (read as ACUITE Triple B minus)** from **'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 Upgrade

The rating upgrade factors in the steady operating performance of DBPL, as reflected in the H1FY23 period and Acuite's expectation of sustenance of performance over the near to medium term. The Company's operating income grew at a compounded annual growth rate (CAGR) of 18 percent over the last three years through FY 22. The company in the current year has recorded revenue of Rs. 229.88 Cr till September, 2022 i.e. ~47 percent of the company's operating income in FY 22. Acuite believes that the operating performance of the company is likely to remain strong over the near to medium term on account of recovery in the demand for cut and polished diamonds. Further, the healthy revenue growth coupled with stable operating margins and no major capex plan is likely to lead to improvement in the financial risk profile of the company over the medium term. Acuite will continue to monitor the sustenance of the growth demonstrated by the company and its ability restrict any elongation in its working capital cycle, particularly the receivables.

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 (Prov.) as against 4.87 percent in FY21. The improvements in FY22 (Prov.) are on account of higher realisations. As per GJEPC report, the net exports of diamond increased to USD 17334 million in FY22 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. 229.88 Cr for H1 FY2023 i.e. i.e. ~47 percent of the company's operating income in FY 22 (Prov.).

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 stood at 2.29 times as on March 31, 2022(Prov.) as against 2.75 times as on March 31, 2021. The unsecured loan from directors and promoters, though interest bearing, is subordinated to bank debt upto Rs.40 Cr, considering the same as neither debt nor equity, the company's adjusted gearing stood at 1.41 times as on March 31, 2022 (Prov.) as against 1.20 times as on March 31, 2021. The debt protection metrics of the Company are comfortable marked by an improved interest coverage of 2.65 times for FY2022 (Prov.) as against 1.96 times for FY2021. The NCA to Total Debt stood at 0.06 times for FY2022 (Prov.) as against 0.05 times for FY2021. The Debt to EBITDA improved to 7.53 times for FY2022(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

Acuite 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 deterioration in its operating performance marked by decline in scale of operations or any further elongation in its working capital cycle impacting its liquidity profile or deterioration in its financial risk 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Oct 2022	Packing Credit	Long Term	3.60	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	13.46	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	27.30	ACUITE BB+ Stable (Assigned)
	Post Shipment Credit	Long Term	8.40	ACUITE BB+ Stable (Assigned)
	Post Shipment Credit	Long Term	64.73	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	25.00	ACUITE BB+ Stable (Reaffirmed)
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 BBB- Stable Upgraded
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	13.46	ACUITE BBB- Stable Upgraded
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BBB- Stable Upgraded
Punjab National Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	8.40	ACUITE BBB- Stable Upgraded
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	64.73	ACUITE BBB- Stable Upgraded
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	27.30	ACUITE BBB- Stable Upgraded

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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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