

Press Release
DAVARIYA BROTHERS PRIVATE LIMITED
February 01, 2024
Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITE BBB-' (read as ACUITE Triple B minus) on the Rs. 142.49 Cr bank facilities of Davariya Brothers Private Limited (DBPL). The outlook is 'Stable'.

Reason for reaffirmation

The rating reaffirmation reflects DBPL's moderate financial risk profile along with its adequate liquidity position. As per the GJEPC reports, the Cut and Polished Diamond (CPD) industry has recorded a decline of 9.78% YOY between FY2023 and FY2022 in its total exports. In accordance with the industry trend, the company's revenues have also declined marginally and stood at Rs.456.66 crore in FY2023 as against the revenue of Rs.487.49 crore in FY2022.

Further, the CPD industry recorded a decline of 29.37% in 7MFY2024 as against the same period during last year, and accordingly the company's revenues have declined and stood at Rs.236.66 crore in 9MFY24. The operating margins stood at 5.11 percent in FY2023 as against 4.67 percent in FY2022. Going forward, the company's ability to improve its operating performance in order to service the increasing maturing debt obligations will remain a key rating monitorable.

About the Company

DBPL is a Mumbai based company manufacturing and trading of cut and polished 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. 44 percent in FY23. It primarily exports to Hong Kong, USA, and Belgium.

Unsupported Rating

None

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' 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 44 percent of its total sales primarily in the markets of Hongkong, USA and Belgium and imports around 60 percent of its total requirement of rough diamonds. Acuité believes the experience of the promoters is likely to help the company in maintaining their business risk profile over the near to medium future.

Moderate financial risk profile

The tangible net worth of the company stood at Rs.139.56 crore as on March 31, 2023, as against Rs.133.69 crore as on March 31, 2022. The networth includes quasi equity of Rs.40.00 crore. The gearing of the company stood at 1.05 times as on March 31, 2023, as against 0.98 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.27.06 crore, unsecured loan of Rs.4.93 and short-term debt of Rs.114.29 crore as on March 31, 2023. The interest coverage ratio stood at 1.96 times as on March 31, 2023, as against 2.54 times as on March 31, 2022. The DSCR stood at 1.71 times as on March 31, 2023, as against 2.16 times as on March 31, 2022. Acuité believes that the ability of the company to maintain the capital structure will remain key sensitivity.

Weaknesses

Working capital intensive operations

The company's operations are intensive as evident from the GCA days of 225 days as on March 31, 2023, as against GCA days of 192 days as on March 31, 2022. The inventory days increased and stood at 134 days for FY23 as against 104 days for FY22. The inventory levels have further increased and stood at 246 days as on December 2023. The inventory levels have increased due to low demand in the markets leading to the pileup of inventory. The debtors' days stood at 97 days for FY23 as against 90 days for FY22. The average credit period allowed to the customers is around 100 days. The creditors days stood at 31 days for FY23 against 27 days for FY22. The average credit period received from the supplier is around 30 days. The average utilization of the bank limits is high at around 84 percent for six months ending December '2023. Acuité believes that the ability of the company to improve its working capital management will be key monitorable over the medium term.

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 60 percent of its raw material requirement i.e. rough diamonds and exports around 45 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

Improvement in scale of operations while maintaining the profitability margins and capital structure

Further elongation in the working capital cycle

Deterioration in the liquidity position

Liquidity position: Adequate

The company has an adequate liquidity position marked by moderate net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.8.47 crore in FY23 as against nil maturing debt obligations over the same period. The company is estimated to generate cash accruals of Rs.5.79-7.09 crore over the period 2024-2025 against maturing debt obligations of Rs.6.84 crore over the same period. The company maintains unencumbered cash and bank balance of Rs.1.22 crore as on March 31, 2023. The current ratio stood at 1.95 times as on March 31, 2023.

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 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	456.66	487.49
PAT	Rs. Cr.	5.85	8.39
PAT Margin	(%)	1.28	1.72
Total Debt/Tangible Net Worth	Times	1.05	0.98
PBDIT/Interest	Times	1.96	2.54

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>
- 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, Acuité 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
04 Nov 2022	Post Shipment Credit	Long Term	64.73	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	3.60	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	13.46	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	27.30	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Post Shipment Credit	Long Term	8.40	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	25.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	51.60	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.60	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Post Shipment Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.40	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Post Shipment Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	51.59	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2028	Simple	27.30	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.