

Press Release

Hari Darshan Exports Private Limited

June 29, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	150.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	155.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of **ACUITE A3+** (read as **ACUITE A three plus**) on the Rs. 155.00 crore bank facilities of Hari Darshan Exports Private Limited (HDEPL). The outlook is '**Stable**'.

Rating Rationale:

The rating assigned takes into account the experienced management, stable operating performance and moderate financial risk profile of HDEPL. The strengths are partially offset by the working capital intensive nature of operations of HDEPL. 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

Mumbai based Hari Darshan Exports Pvt Ltd (HDEPL) was established as a partnership firm in 2004 by Mr. Bhavesh Odhavjibhai Lakhani, Mr. Nileshkumar Lavjibhai Lakhani, Mr. Riteshbhai Jerambhai Lakhani and Mr. Dineshkumar Vashrambhai Dhola. The firm was converted to a private limited company in 2014. HDEPL is engaged in processing and trading of cut and polished diamonds of size ranging between 0.02 to 1 carat.. HDEPL is a DTC sight certificate holder since 2017, and has eight manufacturing facilities spreads Bhavnagar, Rajkot and Surat. The Company has a total processing capacity of 20000 carats per month. HDEPL exports ~60-70 percent of its total sales in the key markets of Belgium, Israel, UAE, Hongkong and Spain among others.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of HDEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

HDEPL started operations in 2004 as a partnership firm to process and sell polished diamonds. The promoters, Mr. Bhavesh Odhavjibhai Lakhani, Mr. Nileshkumar Lavjibhai Lakhani, Mr. Riteshbhai Jerambhai Lakhani and Mr. Dineshkumar Vashrambhai Dhola have 2 decades of experience in the diamond industry. HDEPL is a DTC sight certificate holder since 2017. It exports 60-70 percent of its total sales primarily in the markets of Hong Kong, Belgium, Israel and UAE among others.

Acuité believes the experience of the promoters will help the company in maintaining their business risk profile on the back of established track of operations in the near to medium future.

- **Moderate Operating Performance**

HDEPL's revenue stood at Rs.449.21.60 crore in FY21 as against Rs.384.93 crore in FY20 and Rs.507.95 crore revenue in FY19. In 11MFY22, company achieved a revenue of Rs.634.51 Cr. and is expecting to close the year at approx. Rs.730 Cr owing to healthy demand in gems and jewellery industry. As per GJEPC report, net exports of cut and polished diamonds have registered a growth of 24.5 percent in 11MFY2022 to \$22036.19 million from \$17698.8 million during 11MFY2020. Further, HDEPL's operating profitability has been fluctuating however moderate at 4.81 percent in FY2021 as against 7.59 percent in FY2020 and 6.09 percent in FY2019. The decline in margins in FY2021 is mainly on account of higher material costs. In 9MFY2022, HDEPL's operating profitability stood at 6.25 percent. HDEPL's net profitability stood at 1.96 percent in FY2021 as against 1.70 percent in FY2020 and 2.56 percent in FY2019. Acuité expects HDEPL to maintain its operating performance over the medium term supported by the positive trends in gems and jewellery industry.

- **Moderate financial risk profile**

HDEPL has moderate financial risk profile marked by moderate networth, moderate overall gearing and comfortable coverage indicators. The tangible net worth stood at Rs.128.71 crore as on March 31, 2021 as against Rs.119.90 crore as on March 31, 2020 and Rs.113.38 as on March 31, 2019. The increase in the networth is due to the accretion of profits to reserves. HDEPL's overall gearing stood at 1.13 times as on March 31, 2021 as against 1.24 times as on March 31, 2020 and 0.91 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.52 times as on March 31, 2021 against 1.78 times as on March 31, 2020 and 1.42 times as on March 31, 2019. The debt protection metrics of the company is moderate marked by interest coverage ratio of 2.69 times in FY2021 as against 2.45 times in FY2020 and 3.07 times in FY2019. The DSCR stood at 2.13 times in FY2021 as against 1.94 times in FY2020 and 2.51 times in FY2019.

Acuité expects the financial risk profile to remain moderate over the medium term in the absence of any major debt-funded capex plan.

Weaknesses

- **Working Capital Intensive nature of operations**

HDEPL's operations are working capital intensive in nature as reflected by its gross current asset days 226 days as on March 31, 2021 and 273 days as on March 31, 2020 and 167 days as on March 31, 2019. The GCA days are driven by inventory days and debtor days. The debtor days increased to 147 days as on March 31, 2021 as against 127 days as on March 31, 2020 and 107 days as on March 31, 2019. The inventory days stood at 76 days as on March 31, 2021 as against 149 days as on March 31, 2020 and 57 days as on March 31, 2019. The debtor days have moderated in 9MFY2022. The average bank limit utilization of its fund based facility for the six months ended May, 2022 was ~70 percent. The creditor days stood at 29 days as on March 31, 2021 as against 65 days as on March 31, 2020 and 44 days as on March 31, 2019.

- **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 ~60-65 percent of its raw material requirement i.e. rough diamonds and its exports range between 60-70 percent of its total sales. The forex risk on exports is largely covered against imports, however, the price volatility risk in rough diamonds threaten the thin profitability margins of the company due to long working capital cycles.

Rating Sensitivities

- Any further elongation in its working capital cycle.
- Ability to maintain the recovery in its operating performance while maintaining its profitability and capital structure.

Material covenants

None

Liquidity Position: Adequate

The liquidity of the company is adequate marked by comfortable cash accruals as against debt repayment obligations. HDEPL generated net cash accruals of Rs.11.25 Cr and Rs.9.04 Cr in FY2021 and FY2020 respectively while its repayment obligations during the same period stood in the range of Rs.1-3 Cr. The cash accruals of the Company are expected to remain in the range of Rs.23.00-26.00 Cr over the medium term against debt repayment obligations of Rs.2-5 Cr for the same period. The business of the HDEPL is working capital intensive with gross current asset (GCA) days of around 226 days in FY2021. The average bank limit utilization of its fund based facility for the six months ended May, 2022 stood at ~70 percent. The unencumbered cash and bank balance stood at Rs.1.4 Cr as on March 31, 2021. The current ratio was 1.53 times as on March 31, 2021.

Acuité believes that the liquidity of the Company is likely to remain adequate over the medium term on account of comfortable cash accruals against debt repayment obligations over the medium term constrained to some extent by working capital intensive nature of operations.

Outlook: Stable

Acuité believes that HDEPL will maintain a 'Stable' outlook over medium term on account of extensive experience of its management, moderate operating performance 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

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	449.21	384.93
PAT	Rs. Cr.	8.81	6.53
PAT Margin	(%)	1.96	1.70
Total Debt/Tangible Net Worth	Times	1.13	1.24
PBDIT/Interest	Times	2.69	2.45

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

None

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:**

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ Assigned
State Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ Assigned

Sublimits:

1. Indusind Post Shipment Credit facility of Rs. 90 Cr includes sub-limit of EPC facility of Rs. 36 Cr and PCFC/Diamond dollar bills under collection facility of Rs.90 Cr.
2. SBI Post Shipment Credit facility of Rs.60 Cr includes sub-limit of EPC/PCFC facility of Rs.30 Cr and EBR of Rs.30 Cr.
3. The short term loan facility of total Rs. 5 Cr. (Rs. 2.5 Cr. from IndusInd Bank and Rs. 2.5 Cr. from SBI Bank) is non-fund based in nature.

Contacts

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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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