

Press Release

Pavasiya Exports

August 30, 2022

Rating Assigned



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------------|-------------------|
| Bank Loan Ratings | 5.50 | ACUITE BB- Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 5.50 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB-'** (read as **ACUITE double B minus**) on the Rs.5.50 Cr bank facilities of Pavasiya Exports (PE). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into consideration company's long track record of operations in the cut and polished diamond industry. The rating also draws comfort from the extensive experience of the promoters in the aforementioned industry. However, the rating is constrained by the intensive nature of the working capital operations, stretched liquidity position and susceptibility of the profitability to volatility in prices of rough diamonds.

About the Company

Pavasiya Exports is a Mumbai-Maharashtra based partnership firm promoted by Mr Dhamjibhai Pavasiya, Ramjibhai Pavasiya, Ashokbhai Pavasiya, Manojbhai Pavasiya and Mr Milanbhai Pavasiya. It was established in the year 1984. The firm is engaged in the cutting, polishing and trading of diamonds. Their manufacturing facilities are in Surat and Mumbai. Their customers are 90% present in Hong Kong and rest in UAE, Belgium. Their suppliers are primarily from India Dubai, Belgium and UAE.

Analytical Approach

Acuite has taken the standalone business and financial risk profile of Pavasiya Exports (PE) to arrive at the rating

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Pavasiya Exports is promoted by Mr Dhamjibhai Pavasiy, Ramjibhai Pavasiya, Ashokbhai Pavasiya, Manojbhai Pavasiya and Mr Milanbhai Pavasiya. The promoters possess extensive experience of more than a three decades in the diamond industry. The extensive experience

of the promoters has helped PE to secure repeated orders.

Acuité believes that the firm will benefit from its experienced management, long track of operation and diversified product portfolio.

Moderate Financial Risk Profile

Financial risk profile of the firm is moderate with a moderate network, low gearing and comfortable debt protection metrics. Tangible network of the firm stood at Rs.25.36 crore as on 31st March, 2022 (Prov.) as against 23.31 crore as on 31st March, 2021. Increase in tangible network is on account of healthy accretion to reserves. Gearing of the firm has improved from its peak gearing level of 0.43 times as on 31st March, 2020. Gearing stood at 0.39 times as on 31st March 2022 as against 0.30 times as on 31st March, 2021. Gearing levels of the firm are likely to range between 0.36 times in the medium term. TOL/TNW stood at 0.48 times as on 31st March, 2022 as against 0.41 times as on 31st March 2021. Debt protection metrics remain comfortable with DSCR and ICR stood at 5.23 times in FY2022 as against 1.76 times in FY2021. Acuite believes that the financial risk profile of the firm is likely to remain comfortable in absence of incremental working capital requirements of the firm.

Weaknesses

Working Capital Operation is intensive in nature

Working capital operations of the firm are intensive marked by GCA days of 477 days in FY2022 as against 379 days in FY2021. The higher GCA days are driven by higher inventory holding and debtor collection period. ~60% of the sales are exports to Hong Kong. Debtor collection period stood at 163 days in FY2022 (Prov.) as against 176 days in FY2021. Rough diamonds are procured majorly from India, Belgium and Dubai. The inventory holding period stood at 280 days in FY2022 (Prov.) as against 174 days in FY2021. Creditor days stood at 34 days in FY2022. The working capital requirements are met by PCFC and EBRD facilities which remain fully utilized.

Acuite believes that the working capital operations of the company will remain moderate in the medium term and will continue to remain a key rating sensitivity.

Susceptibility of operating performance to cyclicity in gems and jewellery sector and geographical concentration risk

Pavasiya Exports (PE) faces a geographical concentration risk as ~60% of the sales are generated from Hongkong for last two year ending FY2022. Demand for CPD and jewelry is directly linked to discretionary spending by the clients and spending pattern changes as a result of economic slowdown. Any impact on the relationships with these players and any change in demand or disruption in this key markets will have direct impact on operating performance of PE.

Acuite believes that the operating performance of the company will be driven by the demand and discretionary spending patterns of the key markets for the firm.

Rating Sensitivities

- Sustained improvement in operating performance and efficient management of its working capital requirement
- Slowdown in industry leading to inventory pile up and elongation of receivables

Material covenants

None

Liquidity: Stretched

The company meets its working capital requirements through PCFC and EBRD limits. Such working capital limits remain fully utilised. The firm is likely to generate NCA in the range of 0.32-0.60 crores as against debt repayment obligation of Rs. 0.26- 0.45 crores in the near to medium term. PE maintains an unencumbered cash balance of Rs. 1.69 crore as on 31st March 2022 as against Rs. 1.27 crore as on 31st March, 2021. Current ratio of the company stood at 3.28

times as on 31st March, 2022.

Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of intensive nature of working capital operations.

Outlook: Stable

Acuité believes that Pavasiya Exports will maintain a 'Stable' credit profile over near to medium term on back of its established position in Cut & Polished Diamonds (CPD) industry. The outlook may be revised to 'Positive' if the company reports significantly higher than expected operating performance while efficiently managing its working capital cycle and sustaining its healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in operating performance, debt funded capex as well as elongation in the working capital cycle leading to deterioration in the overall financial risk profile and capital structure of Pavasiya Exports.

Other Factors affecting Rating

Not applicable

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 27.21 | 29.77 |
| PAT | Rs. Cr. | 1.93 | 0.31 |
| PAT Margin | (%) | 7.09 | 1.05 |
| Total Debt/Tangible Net Worth | Times | 0.39 | 0.30 |
| PBDIT/Interest | Times | 5.23 | 1.76 |

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

Crisil Ratings, vide its press release dated March 15, 2022 had denoted the rating to Pavasiya Exports as 'CRISIL BB-/Stable' (Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

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 |
|----------------|----------------|----------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| IDBI Bank Ltd. | Not Applicable | Packing Credit | Not Applicable | Not Applicable | Not Applicable | 2.75 | ACUITE BB- Stable Assigned |
| IDBI Bank Ltd. | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 2.75 | ACUITE BB- Stable Assigned |

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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