Press Release
AVP STAR PRIVATE LIMITED
June 16, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BBB | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of **Acuité BBB' (read as Acuité Triple B)** to the Rs. 45.00 crore bank facilities of AVP Star Pvt. Ltd. (ASPL). The outlook is '**stable'.**

Rationale for rating assigned

The rating assigned takes into account the long track record of operations of the group in the natural diamond segment and the experience of its management of more than 25 years in the diamond industry. Further, the rating factors in the financial support extended by the group company (JK Star Pvt. Ltd.) and promoters in the company in the form of unsecured loans as well as preference shares. The rating also favourably factors in the significant increase in revenue of the group, which stood at Rs 1227.98 crore in FY 2023 (prov) as against Rs 1150.63 crore in FY 2022 and Rs 655.39 crore in FY 2021. Further, the financial risk profile of the group also remains healthy with low dependence on outside borrowing, and gearing stood at 0.44 times as of March 31, 2023 (prov) as against 0.08 times as of March 31, 2022. However, the above-mentioned rating strengths are partly offset by the nascent scale of operations as the company becomes operational in October 2022. Further, the lab-grown diamond segment is slightly different from the current segment of the group. Also, the success and growth of businesses in the long run and market uncertainties will remain key factors to monitor going forward. The rating also considers the working capital-intensive nature of operations and their susceptibility to volatility in raw material prices and forex risk.

About Company

Incorporated in 2022, AVP Star Private Limited is located in Gujarat. It is engaged as a manufacturer and wholesaler of lab-grown diamonds across India. The current directors of the company are Mr. Vijaybhai Harakhjibhai Mavani, Mr. Nandesh Popatbhai Lukhi, and Mr. Shaileshkumar Popatlal Lukhi.

About the Group

J.K. Star Private Limited J. K. Star Private Limited was set up as a partnership firm in 1996 by Mr. Shailesh Lukhi and his brother, Mr. Nandesh Lukhi. JKS has been converted into Present Name, a private limited company, in September 2021. The company processes and trades in white natts (diamonds with inclusions). The company is headquartered in Mumbai, while its processing facility is in Surat (Gujarat).

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
Acuité has consolidated the business and financial risk profile of 'J. K. Star Private Limited' and AVP Star Private Limited together referred as 'J. K. Star Group'. The consolidation is in view of common management, operational & financial linkages between the entities.

Key Rating Drivers

Strengths

Experienced promoters and established operations of the group
M/s. AVP Star Private Limited is promoted mainly by three promoters, namely Mr. Vijaybhai Harakhjibhai Mavani, Mr. Nandesh Popatbhai Lukhi, and Mr. Shaileshkumar Popatlal Lukhi. The promoters so far have been doing business in natural diamonds and have a good experience of more than 25 years. The promoters of the company are already in the business of selling natural diamonds under J. K. Star Private Limited. The group exports to Hong Kong, the USA, Japan, Thailand, the UAE, and Germany, among others. Currently, the revenue generated from exports is 50% and from domestic sources is 50%.
Acuité believes that even though lab-grown diamonds are a different segment, the promoter's experience in the natural diamond industry will benefit the company in the near to medium term.

Healthy financial risk profile
The financial risk profile of the group is healthy, marked by healthy net worth, low gearing, and above-average debt protection metrics. The net worth stood at Rs. 194.85 crore as of March 31, 2023 (provisional), as against Rs. 108.57 crore as of March 31, 2022. The net worth includes 54.42 crore of unsecured loans and cumulative redeemable preference shares, which are being treated as quasi-equity. However, the increase in net worth in FY 2023 (Prov) is primarily due to the accretion of profits to the reserves. The group follows a conservative financial risk policy, reflected through its low dependence on borrowing and peak gearing of 0.44 times as of March 31, 2023 (Prov). The gearing level of the group remains low and below unity at 0.44 times as of March 31, 2023 (provisional), as against 0.08 times as of March 31, 2022, and 0.21 times as of March 31, 2021. Also, the ratio of total outside liabilities to tangible net worth (TOL/TNW) improved and stood moderately at 1.47 times as of March 31, 2023 (provisional), compared against 2.64 times as of March 31, 2022. The debt protection matrices of the group remain above average, marked by an interest coverage ratio (ICR) of 17.90 times and a debt service coverage ratio (DSCR) of 33.70 times for FY23 (provisional). The company has a capex plan of Rs 60.50 crore to increase the capacity from 49,500 carats per annum to 1,50,000 carats per annum. The capex plan will be funded by Rs 27 crore of term loans, Rs 3.5 crore of equity, Rs 20 crore of USL, and Rs 10 crore of internal accruals.
Acuité believes that the financial risk profile of the group may continue to remain healthy over the medium term with moderate cash accruals.

Healthy scale of operations for the group
The operations of the group remained healthy, as reflected by the significant improvement in revenue from operations in the last couple of years. The revenues of the group registered a growth rate of 37% CAGR over FY21–23 (provisional). The revenues of the group improved to Rs. 1227.98 crore in FY23 (provisional), compared against Rs. 655.39 crore in FY21. The growth is mainly driven by healthy demand for white natural diamonds, especially from global markets like Hong Kong and the USA, among others. However, the revenue of the company is moderate, with operations beginning in October 2022. Further, the success of the business is yet to be established.
Furthermore, the profitability of the company also remained comfortable, marked by an operating profit margin of 9.53 percent in FY23 (provisional) compared against 6.37 percent in FY22. The improvement is primarily due to sales of lab-grown diamonds, which yield better margins compared to natural diamonds. Simultaneously, the profit after tax margins (PAT) stood at 6.67% in FY23 (Prov), up from 4.73% in FY22.
Acuite believes the increase in scale of operation in the lab-grown diamond business is a key

rating sensitivity.

Weaknesses

The working capital-intensive nature of operations

The operations of the group remained working capital intensive in nature, marked by GCA days of 118 days for FY23 (provisional) as against 115 days for FY22. The high GCA days are mainly on account of the high inventory days of 87 days for FY23 (provisional) as against 71 days for FY22. The inventory days are high due to the requirement to maintain a certain level of inventory. However, the receivables days stood moderately at 34 days in FY23 (provisional) as against 41 days in FY22, which is in line with the general credit period allowed of 40–45 days. The creditor days of the group stood at 65 days for FY23 (provisional) as against 91 days for FY22.
Acuite believes that the working capital operations of the company may continue to be intensive, considering the inventory level requirements.

Susceptibility to volatility in raw material prices and foreign exchange fluctuation risk

The group is exposed to volatility in diamond prices. Furthermore, almost 50% of the revenue of the group comes from exports, which expose it to foreign currency fluctuation risk. Hence, the profitability margins remain susceptible to any volatility in raw material prices as well as forex fluctuations.

Rating Sensitivities

Ability to improve its scale of operations in lab grown diamond while maintaining its profitability
further elongation in working capital cycle

Material Covenants

None

Liquidity Position

Adequate

The liquidity position of the group remains adequate marked by healthy net cash accruals against its matured debt obligations. The group registered net cash accruals to the tune of Rs.55.64 Cr in FY23 (Provisional) against no matured debt obligations during the same period. The net cash accruals of the group are expected to remain in the range of Rs.108 Cr. to Rs.135 Cr during FY24-26 period against matured debt obligations of Rs.9.81 Cr. during the same period. The current ratio of the group remains above unity at 1.51 times as on 31 March 2023 (Provisional). The group has unencumbered cash and bank balances of Rs.3.50 Cr. as on 31 March 2023 (Provisonal).

Outlook:

Acuité believes that AVP STAR PVT LTD will maintain a 'Stable' outlook over medium term on account of extensive experience of its management, established track record of operations and healthy 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1227.98	1150.63
PAT	Rs. Cr.	81.96	54.41
PAT Margin	(%)	6.67	4.73
Total Debt/Tangible Net Worth	Times	0.44	0.08
PBDIT/Interest	Times	17.90	38.18

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

Not Applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	27.58	ACUITE BBB | Stable | Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.42	ACUITE BBB | Stable | Assigned

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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.