



Press Release
VEER GEMS
October 03, 2023
Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|---------------------------------|----------------------|
| Bank Loan Ratings | 15.00 | ACUITE BBB- Stable Assigned | - |
| Bank Loan Ratings | 120.00 | - | ACUITE A3 Assigned |
| Total Outstanding Quantum (Rs. Cr) | 135.00 | - | - |

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB- (read as ACUITE triple B Minus)**' and short term rating of '**ACUITE A3 (read as ACUITE A three)**' on the Rs. 135.00 crore bank facilities of Veer Gems (VG). The outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned considers experienced management, established track record of operations and moderate financial risk profile of VG. The rating is also supported by the improvement in operating performance of VG marked by increasing revenue and rangebound operating margins. The operating income of the firm stood at Rs.719.65 crore in FY2023 as against Rs.663.01 crore in FY2022 and Rs.474.86 crore in FY2021. The increase in revenue in FY23 is driven by higher realisation rates as compared to the previous year. The firm in the current year has recorded revenue of ~Rs.175 crore till July 2023. The operating margin of the firm stood at 3.56 percent in FY2023 as against 3.37 percent in FY2022 and 3.84 percent in FY2021. Also, the PAT margins stood at 1.09 percent in FY2023 as against 1.34 percent in FY2022 and 1.29 percent in FY2021. However, these strengths are partially offset by working capital intensive nature of operations, susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk. The GCA days stood at 192 days in FY2023 and FY2022 as compared to 328 days in FY2021. Despite the reduction in GCA days in FY2023 and FY2022 as compared to FY2021, the average working capital limits utilization continues to remain above 90 percent. Going forward, the company's ability to improve its working capital cycle and improving its scale of operations and profitability while maintaining its capital structure would be key rating sensitivities.

About the Company

Constituted in the year 1982, Veer Gems is engaged in cutting and polishing of diamonds- of small sizes (.30 to .99 cents) and larger sizes up to 3 carats. It is a family owned partnership firm, with offices in Surat and Mumbai. The partners of Veer Gems are Mr. Piyushkumar Maneklal Shah, Mr. Mukesh Maneklal Shah, Mr. Dilip Maneklal Shah, Mr. Maulin Piyush Shah, Mr. Aadesh Dilip Shah.

Analytical Approach

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

Key Rating Drivers

Experienced management and establish track record of operations

VG is operational as a partnership firm since 1982. The firm deals in rough and polish diamonds of small sizes (.30 to .99 cents) and larger sizes up to 3 carats, with offices in Surat and Mumbai. The partners of Veer Gems are Mr. Piyushkumar Maneklal Shah, Mr. Mukesh Maneklal Shah, Mr. Dilip Maneklal Shah, Mr. Maulin Piyush Shah, Mr. Aadesh Dilip Shah. The partners have over 40 years of experience in gems and jewelry industry. The firm exports around 75 percent of its total sales in key markets of UAE, Hong Kong, USA, Belgium and many other countries. Also, 80% of revenue is achieved from less than 1 carat diamonds and the remaining 20% is from more than 1 carat diamonds. The firm's major revenue comes from Dubai i.e., 37% followed by Hong Kong i.e., 28%. Further, out of the total revenue in FY2023, 67% is from manufacturing and 33% is from trading.

Acuite believes that VG will continue to benefit from the experience of its promoters and established track record of its operations over the medium term.

Moderate financial risk profile

The financial risk profile of the firm stood moderate, marked by moderate tangible net worth, gearing and comfortable debt protection metrics. The tangible net worth of the firm stood at Rs.163.93 crore as on 31 March 2023 as against Rs.153.53 crore as on 31 March, 2022 and Rs.147.80 crore as on 31 March, 2021. The net-worth includes Rs. 21 Cr of unsecured loan from partners as quasi equity. The total debt of the firm stood at Rs.146.76 crore which includes short-term debt of Rs.112.79 crore, long-term debt of Rs.21.95 crore, unsecured loans of Rs.5.45 crore and CPLTD of Rs.6.57 crore as on 31 March, 2023. The gearing (debt-equity) of the firm stood at 0.90 times as on 31 March 2023 as compared to 1.04 times as on 31 March, 2022 and 1.06 times as on 31 March, 2021. Interest Coverage Ratio of the firm stood at 2.08 times for FY2023 as against 2.28 times for FY2022 and 2.02 times for FY2021. Debt Service Coverage Ratio (DSCR) of the firm stood at 1.14 times in FY2023 as against 1.85 times in FY2022 and 1.69 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) of the firm stood at 1.49 times as on 31 March, 2023 and 31 March, 2022 as against 2.05 times as on 31 March 2021. Net Cash Accruals to Total Debt (NCA/TD) of the firm stood at 0.06 times for FY2023 and FY2022 as against 0.04 times for FY2021.

Acuite believes VG's financial risk profile to remain moderate over the medium term in absence of any major debt-funded capex plan.

Weaknesses

Working Capital Intensive nature of operations

The working capital management of the firm is intensive marked by GCA days of 192 days in FY2023 and FY2022 as against 328 days in FY2021. The GCA days are driven by high inventory days and creditor days. The inventory days stood at 154 days in FY2023 as against 133 days in FY2022 and 192 days in FY2021. Generally, the firm follows inventory holding period of 4-5 months. The debtor days stood at 40 days in FY2023 as against 59 days in FY2022 and 127 days in FY2021. The firm generally deals in advance payment to its customers. The Creditor days stood at 49 days in FY2023 as against 33 days in FY2022 and 119 days in FY2021.

Acuite believes VG's ability to restrict elongation in working capital cycle will be a key rating monitorable.

Susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk

Due to high inventory holding period, the firm runs an inherent risk of volatility in raw material prices. The firm imports ~25 percent of its raw material requirement i.e. rough diamonds and its exports ~75 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

- Ability to improve its scale of operations while maintaining its profitability and capital structure
- Any further elongation in its working capital cycle

All Covenants

Not Available

Liquidity Position

Adequate

The firm's liquidity position is adequate, marked by moderate net cash accruals against its maturity debt obligations. The company generated net cash accruals in the range of Rs.6.90-Rs.9.62 Crore from FY 2021- 2023 against its maturity repayment obligations in the range of Rs.5.97-Rs.6.57 crore in the same tenure. It is expected to generate sufficient cash accrual in the range of Rs.10.66-Rs.12.32 crore against the maturing repayment obligations of Rs.5.11-Rs.6.56 crore over the medium term. The working capital operations of the firm is intensive marked by GCA days of 192 days in FY2023.. The average utilization of the working capital facilities stood at 92% per cent for past 06 months ended June 2023. The company maintains unencumbered cash and bank balances of Rs.1.96 crore as on March 31, 2023. The current ratio of the company stands at 1.75 times as on March 31, 2023.

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

Outlook: Stable

Acuité believes that VG will maintain a 'Stable' outlook over medium term on account of extensive experience of its management, established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm 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 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 719.65 | 663.01 |
| PAT | Rs. Cr. | 7.87 | 8.89 |
| PAT Margin | (%) | 1.09 | 1.34 |
| Total Debt/Tangible Net Worth | Times | 0.90 | 1.04 |
| PBDIT/Interest | Times | 2.08 | 2.28 |

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

Not Available

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>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.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 :

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 |
|----------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|---------------------------------|
| Indian Overseas Bank | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE A3 Assigned |
| Indusind Bank Ltd | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A3 Assigned |
| RBL Bank | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE A3 Assigned |
| Indusind Bank Ltd | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 40.00 | ACUITE A3 Assigned |
| Indian Overseas Bank | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 30.00 | ACUITE A3 Assigned |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 15.00 | ACUITE BBB- 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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