



Press Release
Veer Gems
December 20, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	120.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	135.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to 'ACUITE BB+' (read as ACUITE double B plus) from 'ACUITE BBB-' (read as ACUITE triple B minus) and the short term rating to 'ACUITE A4+' (read as ACUITE A four plus) from 'ACUITE A3' (read as ACUITE A three) on the Rs. 135.00 Cr. bank facilities of Veer Gems (VG). The outlook remains 'Stable.'

Rationale for downgrade

The rating downgrade takes into account, the declining operating revenue, deteriorating financial risk profile, working capital intensive operations and stretched liquidity position of VG. This is due to the overall slumped demand in the cut and polished diamond industry globally. Going forward, improvement in the liquidity position and restriction of further elongation in the working capital cycle will be a key monitorable. However, the rating draws comfort from the experienced management and established track record of operations of the firm and improved operating profitability.

About the Company

Established in 1982, Veer Gems (VG) is a Mumbai based firm engaged in cutting and polishing of diamonds of small sizes. The firm is currently managed by its partners namely Mr. Piyushkumar Maneklal Shah, Mr. Mukesh Maneklal Shah, Mr. Dilip Maneklal Shah, Mr. Maulin Piyush Shah and Mr. Aadesh Dilip Shah.

Unsupported Rating

Not Applicable

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

Strengths

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 have over 40 years of experience in gems and jewellery industry. The firm exports sales are around 75 percent to key markets of UAE, Hong Kong, USA, Belgium and 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 Hong Kong i.e., ~32 percent followed by UAE i.e., ~28 percent.

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.

Improved operating profitability despite decline in revenue

The revenue of the firm declined to Rs. 416.84 Cr. in FY2024 from Rs. 719.65 Cr. in FY2023 due to lower volumes owing to downtrend in the demand for natural diamonds in the global market. Further, in FY2022 and FY2023, the firm had received exceptional orders of ~ Rs. 200 Cr. for trading of rough diamonds. However, despite a decline in the operating revenue, the firm observed an improvement in its EBITDA margin to 4.59 percent in FY2024 from 3.56 percent in FY2023 due to improvement in the realisation price of polished diamonds.

The profitability also improved in H1 FY2025 performance of the firm, with an EBITDA margin of 4.99 percent against revenue of Rs. 201.24 Cr.

Weaknesses

Deteriorating Financial Risk profile

The financial risk profile of the firm is marked by moderate networth, low gearing and weak debt protection metrics. While the networth of the firm stood declined at Rs. 162.44 Cr. on March 31, 2024 as against Rs. 163.93 Cr. on March 31, 2023 due to withdrawal of funds by the partners, the TOL/TNW still remains moderate at 1.44 times on March 31, 2024 as against 1.49 times on March 31, 2023. The gearing continues to remain below unity at 0.90 times on March 31, 2024.

Further, the Debt-EBITDA increased to 7.22 times on March 31, 2024, from 5.70 times on March 31, 2023, due to lower profitability which has affected the debt metrics. The Interest Coverage ratio (ICR) stood at 1.50 times and the Debt Service Coverage Ratio (DSCR) stood below unity at 0.90 times on March 31, 2024.

Improvement in the overall financial risk profile will be a key rating sensitivity.

Highly intensive working capital operations

The working capital operations of the firm are highly intensive as evident from Gross Current Assets (GCA) of 320 days on March 31, 2024 as against 192 days on March 31, 2023. The GCA days are back by increased inventory and debtor days of 210 days and 115 days respectively on March 31, 2024 as against 154 days and 40 days respectively on March 31, 2023. The firm provides an average credit period of 60-150 days to its customers. On the other hand, the firm receives an average credit period of 60-120 days from its suppliers. The creditor days stood increased at 74 days on March 31, 2024 as against 49 days on March 31, 2023.

Restriction of further elongation in the working capital cycle will be a key rating sensitivity.

Rating Sensitivities

- Improvement in the overall financial risk profile
- Restriction of further elongation in the working capital cycle
- Improvement in scale of operations

Liquidity Position Stretched

The liquidity position of the firm is stretched, as indicated by generation of insufficient net cash accruals (NCAs) of Rs. 4.50 Cr. against maturing obligations of Rs. 6.57 Cr. in FY2024. The funding gap was met through ease in the working capital finance and infusion of funds by promoters. Going forward, the liquidity position is expected to remain stretched in the near term, shortfall is estimated to be funded through infusions of unsecured loans by the promoters. The current ratio stood at 1.75 times on March 31, 2024. The firm has an unencumbered cash and bank balance of Rs. 3.49 Cr. Further, the stretched liquidity position of the firm is also evident through their high bank limit utilisation of 92.74 percent for the last six months ended November 2024.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	416.84	719.65
PAT	Rs. Cr.	3.98	7.87
PAT Margin	(%)	0.96	1.09
Total Debt/Tangible Net Worth	Times	0.90	0.90
PBDIT/Interest	Times	1.50	2.08

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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.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. Acuité'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
03 Oct 2023	PC/PCFC	Short Term	20.00	ACUITE A3 (Assigned)
	Post Shipment Credit	Short Term	30.00	ACUITE A3 (Assigned)
	PC/PCFC	Short Term	10.00	ACUITE A3 (Assigned)
	Post Shipment Credit	Short Term	40.00	ACUITE A3 (Assigned)
	PC/PCFC	Short Term	20.00	ACUITE A3 (Assigned)
	Proposed Long Term Bank Facility	Long Term	15.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Indian Overseas Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Indusind Bank Ltd	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
RBL Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Indusind Bank Ltd	Not avl. / Not appl.	Post Shipment Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	40.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Indian Overseas Bank	Not avl. / Not appl.	Post Shipment Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	30.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Kruti Patel Associate Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

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