

Press Release

Sim Diam Private Limited

November 02, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 133.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.133.00 crore bank facilities of Sim Diam Private Limited (SDPL). The outlook is '**Stable**'.

Sim Diam Private Limited (SDPL), based in Mumbai, is engaged in manufacturing of cut and polished diamonds at its facilities at Chhapi, Gujarat. The company has established presence since 1998, later changed to a private limited company in 2006. The company is promoted by Mr. Roshan Sethia and family. The company operates in India and derives 60 to 65 percent of revenues through exports to countries like Hong Kong, USA, Israel, Thailand, Europe and Belgium to name few.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Sim Diam Private Limited (SDPL) for arriving at the rating.

Key Rating Drivers

Strengths

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

SDPL has established market presence since 1988 and supported by the extensive experience of the promoters. SDPL has established its position in domestic and international cut and polished diamond markets for more than two decades. The key promoter Mr. Roshan Sethia possesses over two decades of experience in the gems and jewelry industry. The promoters have maintained longstanding relations with customers while successfully navigating through several business cycles over the years. The company has geographically diversified scale of operations. SDPL operates in India, Hong Kong, US, Israel, Thailand, European countries and Belgium to name few. The company is well supported by the second line of management.

- **Moderate Financial risk profile**

The financial risk profile continues to remain moderate marked by high net worth, moderate gearing and debt protection measures. The Tangible net worth stood at Rs. 107.45 crores as on 31 March 2020 (Provisional) as against Rs. 97.12 crore as on 31 March, 2019. The improvement in net worth is attributable to healthy accretion to reserves over the period. The gearing stood moderate at 1.10 times as on 31 March 2020 (Provisional) as against 1.11 times as on 31 March, 2019. The total borrowings of Rs. 118.21 crore as on 31 March, 2020 (Provisional) comprises of short term borrowings of Rs. 112.44 crore, term loan of Rs. 0.76 crore and Rs. 5.00 crore of unsecured loans. The net cash accruals stood at Rs. 11.83 crore for FY2020 (Provisional) as against repayment obligations of Rs. 0.27 to 0.44 crores. The interest coverage ratio (ICR) stood at 2.83 times in FY2020 (Provisional) as against 2.79 times in FY2019. The total outside liabilities to tangible net worth stood at 2.12 times as on 31 March 2020 (Provisional) as against 2.25 times as on 31 March, 2019. Acuité believes the financial risk profile of the company will remain moderate over near to medium term owing to the stagnant growth in operations and stable margins.

Weaknesses

- **Moderately working capital intensive nature of operations**

The operations are moderately working capital intensive marked by Gross Current Assets (GCA) of 262 days in FY2020 (Provisional) as compared to 213 days in FY2019. The GCA days are mainly dominated by inventory holding days of 171 days in FY2020 (Provisional) as against 164 days in FY2019 and 163 days in FY2018. The receivable period has increased to 96 days in FY2020 (Provisional) as against 51 days in FY2019. The elongation is mainly on account of nationwide lockdown and sluggish realization of bills. The company's reliance is higher on bank limit utilization, which stood at ~ 88.00 percent for the last six months ended as on September 2020. Working capital levels are expected to remain in similar range over the medium term due to sluggish demand and elongation in receivables due to pandemic. Acuité believes that the company ability to adequately manage its working capital cycle supported by adequate infusion of funds by the promoters on a timely manner will remain a key rating sensitivity factor.

- **Operating performance susceptible to discretionary consumer spending in key markets and volatile diamond prices amidst intense competition, slowdown due to pandemic**

The SDPL derives its revenues mainly through exports which contribute 60-65 of total revenues. Also, the demand for cut and polished diamonds is directly linked to discretionary spending by the clients. Significant continued slowdown in cut and polished diamonds (CPD) market generally results in piling up of inventory or delays in realization of receivables due to challenges faced by the end customers. The same is visible due to pandemic, sluggish demand and realization in industry. The operating performance of players like SDPL were severely impacted in the first two quarters of FY2021. The recent instances of delinquencies in the gems and jewellery sector have also impacted the approach of the lenders to this sector. Such events are likely to impact the future credit flow to the sector and the cost of credit. The CPD segment has witnessed intense competition with the presence of large and small players. Emergence of new substitutes like lab-grown diamonds is also likely to have a bearing on the demand for CPD's. Also, the industry is likely to witness fall by 25 to 30 percent due to slowdown in demand and import restrictions in the current fiscal. Acuité believes the ability to manage steady revenue growth while maintaining profitability and efficiently managing working capital cycle will be the key rating sensitivity factors.

Liquidity Position: Adequate

The company maintains adequate liquidity position marked by net cash accruals of Rs. 11.60 to 11.83 crore for last three years ending FY2020 against debt repayment of ~Rs. 0.27-0.50 crore over the same period. The current ratio of the company stood at 1.44 times as on March 31, 2020 (Provisional). NCA/TD stood at 0.10 times as on 31st March, 2020 (Provisional) and 0.11 times in the previous year. The current ratio stood at 1.44 times as on 31 march 2020 (Provisional). However, the company reliance is higher on bank limit utilisation which stood at ~ 88.00 percent for the last six months ended as on September 2020.

Rating Sensitivities

- Sustaining existing business and financial risk profile
- Stretch in liquidity due to elongation of receivables
- Ability to Maintains existing profitability margins

Outlook: Stable

Acuité believes that SDPL will maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenue while sustaining the profitability and improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	438.30	506.33
PAT	Rs. Cr.	10.34	9.93
PAT Margin	(%)	2.36	1.96
Total Debt/Tangible Net Worth	Times	1.10	1.11
PBDIT/Interest	Times	2.83	2.79

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

CARE, vide its press release dated June 09, 2020 had denoted the rating of Sim Diam Private Limited as 'CARE BB-/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BB+/Stable'; Issuer Not Cooperating vide its press release dated April 06, 2018.

Any other information

None

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	26.00**	ACUITE BBB-/Stable (Assigned)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	30.00**	ACUITE BBB-/Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.75*	ACUITE BBB-/Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	12.25*	ACUITE BBB-/Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	30.00#	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB-/Stable (Assigned)

Note: Total Limits rated is Rs.133.00 crores

** Maximum Limit – Rs.52.00 crores

*Interchangeability: Pre –Shipment to Post Shipment 100%, Post Shipment to pre shipment 30%. Usance: 120 to 150 days. Also avails Forward cover of Rs.0.46 crores.

#Sub Limit: EPC – Rs.9.00 crores, PCFC – Rs.30.00 crores. Also avails Forward cover of Rs.5.00 crores.

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About Acuité Ratings & Research:

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