



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Samarth Diamond

February 11, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Bank Facilities- Short Term	12.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	12.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Samarth Diamond (“SDM” or “the firm”) derives comfort from its experienced promoters, established presence in the Cut polished Diamonds (CPD) industry, order backed nature of business and its long standing relationship with clientele leading to relatively low counter party payment risk. The ratings also factor in its continuous scale up of operations, timely infusion of capital in the business, satisfactory capital structure and coverage indicators with low near term debt obligation and adequate liquidity. These rating strengths are partially offset by susceptibility of its business operation to regulatory changes both in India and overseas, modest operating margin, intense competition from organized and unorganized players, fluctuations in diamond prices and forex rates, customer concentration and inherent risks for being a partnership firm

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis.
- Improvement in the capital structure.

Downward factor:

- Deterioration in scale of operation coupled with deterioration in profitability on a sustained basis.



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- Deterioration in the capital structure.
- Any adverse regulatory changes.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Domain expertise and extensive promoter experience in CPD industry spanning over almost three decades

SDM is a family-owned business with all the key departments like sourcing, assortment, processing and marketing being headed by the partners who have more than three decades of experience in the CPD industry. The partners are well assisted in their daily functioning by a team of experienced professionals with relevant experience. Further, the firm has an established track record with more than three decades of operations in Mumbai and Visnagar (Gujrat). Infomerics believes that the firm will continue to benefit from its established presence in the CPD industry. The partners have shown support by regular infusion capital in the firm, as required. During FY19, the partners have infused fresh capital aggregating to Rs.3.34 crore.

Order backed nature of business

The firm's operations are order backed in nature, wherein it receives orders from its export customers based on which it procures rough diamond from its suppliers (Mostly imports), leading to minimal inventory holding risk with respect to the manufacturing segment.

Continuous scale up of operations

The total operating income of the firm has witnessed an increasing trend over the years and stood at Rs.542.87 crore in FY19 (Rs.463.85 crore in FY18). Revenue grew at a CAGR of ~10%, driven by increase in demand of its export CPD (Cut polished Diamonds) leading to increase in sales volume along with increase in average sales realization. Also, the firm benefitted from its long standing relationship with its customers for repeat orders and derives fresh orders from new



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customers due to its reputation in the industry. This lends competitiveness to the firm's operations in the highly competitive and fragmented CPD market.

Moderate working capital management

SDM's net working capital cycle increased to 50 days in FY19 (FY18: 47 days), due to a higher inventory, partly offset by reduced debtor days. However, the firm benefits from a long credit period of 90-120 days offered by its suppliers. The firm's average fund-based working capital utilisation was moderate at ~85% of the sanctioned limits for the 12 months ended December 2019.

Satisfactory capital structure and coverage indicators with low near term debt obligation

The firm's capital structure (overall gearing of 0.77 times) as on March 31, 2019 and interest coverage ratio (6.95 times) in FY2019 remained comfortable on the back of its calibrated revenue growth and more-or-less stable operating profitability. Total indebtedness also remained comfortable as reflected by TOL/TNW at 2.18x as on March 31, 2019. Further, during FY19, the firm has earned a gross cash accruals Rs.14.05 crore as against its debt repayment obligation of Rs.1.21 crore.

Key Rating Weaknesses

Susceptible to regulatory changes both in India and overseas

Diamond is an important commodity traded in the international market, so trading in diamond is highly influenced by several government policies and regulations, which changes from time to time

Modest operating margins; intense competition from organized and unorganized players

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Firm's profitability is vulnerable to price movements in roughs and cut and polished diamonds. Any price decline in cut and polished diamond with rough prices remaining constant can put pressure on SDM's already thin margins. The firm's operating margins remain modest at ~5% in FY2019 because of the inherently low value-additive and fragmented nature of the CPD industry. The firm's EBITDA margins are likely to remain around 5% in FY20.

Fluctuations in Diamond Prices and Forex rates

With more than 70% of its revenues coming from export earnings, the firm's exposure to foreign currency has remained high over the years, exposing it to the vagaries of currency markets. However, since the firm's exports are primarily backed by imports, it enjoys a natural hedge to a large extent. Additionally, the firm hedges its foreign currency exposure through forward contracts.

Customer concentration risk

The firm has high customer concentration risk. SDM's top three customers constituted ~60% of the sales for FY19 as against ~42% in FY18. However, SDM's customer base is spanning into various countries attributed to the relationships that it has created by operating in the diamond industry for more than three decades.

Inherent risks for being a partnership firm

Being a partnership firm, it is vulnerable to capital withdrawals by the partners and extent of withdrawal going forward will remain a key monitorable.

Analytical Approach: Standalone

Applicable Criteria:

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Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The firm earned a GCA of Rs.14.05 crore as compared to its debt repayment obligation of Rs. 1.21 crore in FY19. Further, in FY20 it has a total debt repayment obligation of Rs.1.11 crore expected to be met through the internal accruals. Infomerics expects that the firm will generate cash accruals to the tune of Rs.16-17 crore during next three years. The current and quick ratios remained moderate at 1.31x and quick ratio at 0.39x as on March 31, 2019. Furthermore, the company has gearing headroom for additional liquidity on the account of substantial increase in top line.

About the Firm

Established in 1987, Samarth Diamond (SDM) is a partnership firm with Mr. Dashrath Patel, Mr. Govind Patel and Mr. Dinesh Patel being the partners. Later, in April 01, 2017 onwards Mr. Himanshu Dashrathbhai Patel, Mr. Prashant Dineshbhai Patel and Rohan Exports Pvt. Ltd. have become partners in the firm. The firm is engaged in the business of processing and export of non-certified cut and polished diamonds (CPD) for size ranging between 0.004 carats to 0.25 carats. SDM has its processing facility located at Mehsana in Gujarat.

Financials (Standalone):

	(Rs. In Crore)	
For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	463.85	542.87
EBITDA	23.51	26.12
PAT	12.23	14.28
Total Debt	37.22	51.08
Tangible Net worth	52.36	66.52
EBITDA Margin (%)	5.07	4.81
PAT Margin (%)	2.63	2.62
Overall Gearing Ratio (x)	0.71	0.77

*Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with India Ratings and Research at IND BBB/IND A3 (Issuer Not Cooperating) on November 06, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Bank Facilities-Fund Based	Short Term	12.00	IVR A3+ (IVR A Three Plus)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Bank Facilities – Packing Credit	-	-	-	12.00	IVR A3+