Press Release

Nuvo Aeon Diamond & Jewellery LLP
March 15, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	[Complexity Indicator]
Proposed Long Term Bank Facilities	35.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Proposed Short Term Bank Facilities	15.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**50.00 (Rupees Fifty crore only)**			

Details of Facilities are given in Annexure 1

Detailed Rationale:

The ratings assigned to the bank facilities of Nuvo Aeon Diamond & Jewellery LLP (Nuvo) derive strength from the experienced promoters and long track record of operations in diamond industry, support in the form of operational synergies from group companies, growing scale of operations with healthy operating margins and comfortable capital structure and debt protection metrics. The rating strengths are however tempered by susceptibility to volatility in raw material prices and foreign exchange fluctuation risk, capital intensive nature of operations, increasing competition in Lab Grown Diamond (LGD) segment and partnership nature of entity.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of operations along with profitability on a sustained basis.
- Sustenance of working capital cycle and financial risk profile.

Downward Factors

- Deterioration in scale of operations and profitability impacting liquidity and debt protection metrics.

- Larger than expected debt-funded capex, deteriorating capital structure and debt protection metrics.
- Substantial increase in its working capital requirements impacting cash accruals and liquidity of the company.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters and long track record of operations in diamond industry

The firm is promoted by Mr. Anil Poddar who has experience of over 40 years in the diamond industry. The promoters understand the industry dynamics, which has helped them in procuring the right technology for manufacturing and processing of LGD and have established long standing relationships with the suppliers and customers. The firm is mainly engaged in processing and trading of Cut and Polished Lab Grown Diamonds (CPLGDs). From FY23 they have started to shift their focus on manufacturing of rough LGDs. Further, the promoters are well supported by team of qualified professionals having experience in the relevant fields.

Support in the form of operational synergies from group companies

Nuvo derives group support in form of operational synergies with various group companies. It sells CPLGDs to its group companies viz. Poddar Diamond Private Limited, Aarush Diam LLC and Pure Stones BV. On the other hand, it procures carbon plates and CPLGDs from Aarush Diam LLC and Pure Stones BV and procures rough LGDs from Pure Stones BV. The sales to the group companies comprised 75% of the sales in FY23, whereas the purchases from them comprised 29% of the total purchases in FY23.

Growing scale of operations with healthy operating margins

The firm's revenue has increased by a CAGR of 57.23% during the last three fiscal years. Nuvo's total operating income (TOI) has witnessed an increase of ~15.93% from Rs.191.60 crore in FY22 to Rs.222.12 crore in FY23 on account of increase in the demand for LGDs as they act as substitute for natural diamonds. EBITDA has increased from Rs. 33.16 crore in FY22 to Rs.81.13 crore in FY23. Accordingly, EBITDA margin has also increased from 17.31% in FY22 to 36.53% in FY23. Nuvo's PAT margin has improved from 10.87% in FY22 to 18.50% in FY23 in line with operating margins. As per 10MFY24(unaudited) the firm reported a revenue of Rs.211.44 crore and EBIDTA margin of 38.44%.

Comfortable capital structure and debt protection metrics

The firm had a total debt of Rs.8.74 crore as on March 31,2023 which comprises of Rs.0.60 crore vehicle loan, Rs. 0.02 crore working capital borrowing and Rs.8.13 crore unsecured loan from other corporates payable on demand. The tangible net-worth improved and stood at Rs.33.50 crore as on March 31, 2023, as against Rs. 11.59 crore March 31, 2022, due to accretion of profits coupled with infusion of partners' capital. The overall gearing ratio stood at 0.26x as on March 31, 2023. However, TOL/TNW of the firm was moderate at 3.83x as on March 31, 2023. The firm plans to set up solar power plant of 8MW capacity to reduce operational expenses. The cost of the capex will be Rs. 55.00 crore which will be funded through term loan of Rs.35.00 crore, unsecured loan from promoters amounting to Rs.15.00 crore and the rest Rs.5.00 crore from internal accruals. The capex is at a planning stage and the firm is also exploring other options like power purchase agreement. However, after factoring in the capex also the capital structure is expected to be adequate over the medium term. The debt protection metrics are comfortable with interest coverage ratio of 37.99x in FY23.

Key Rating Weaknesses:

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

The firm's major business is through export aggregating to 96.87% of the total sales whereas the imports aggregates to 44.03% of the total purchases. The firm does not have any hedging policy. As on December 31,2023 the unhedged forex receivables stood at Rs.24.83 crore. Volatility in foreign exchange rates may affect the profitability margins if continued to remain unhedged.

Capital intensive nature of operations.

The LGD segment is technology driven and capital intensive with a requirement to increase the number of reactors on a continuous basis to increase the scale of operations. The operations also need large supply of electricity. The ability to get a consistent output especially from the new reactors amidst increasing fixed costs will have to be seen. Further, the LGD segment could continue to see challenges related to constant changing technology which could lead to lower realisations leading to lower profitability over the medium term.

Increasing competition in LGD segment

With increasing concerns on environmental impact of mining of natural diamonds and sustainability, LGDs are well placed to grow in the near to medium term. USA is one of the major markets for LGDs and is expected to penetrate other geographies as well in the near to medium term. LGD requires high investment and being relatively new segment competition is currently moderate. However, with increase in production capacity across the globe, the competition is expected to increase in LGD segment thus resulting in moderation in average realisations for LGD in the near to medium term.

Partnership Constitution

Nuvo is a limited liability partnership firm and any significant withdrawals from the capital account by partners could impact on its net worth and hence, the capital structure. This remains one of the key rating monitorable.

Analytical Approach: Standalone approach

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity – Adequate

Liquidity position is adequate marked by sufficient cushion expected in average accruals of Rs.67.31 crore in FY24, Rs.75.63 crore in FY25 and Rs.86.95 crore in FY26 vis-à-vis repayment obligations of Rs.0.20 crore in FY24, Rs.1.27 crore in FY25 and of Rs.7.10 crore in FY26. The company is planning a capex of Rs. 55.00 crores in FY24 through a mix of Rs.35.00 crore term loan, Rs.15.00 crore as an unsecured loan from promoters and Rs.5.00 crore from internal accruals. The current ratio is low at 0.35x as on March 31, 2023. The free cash and bank balance of the company stood at Rs.0.09 crore as on March 31, 2023.

About the Company:

Nuvo Aeon Diamond and Jewellery LLP was incorporated in July 2016 and is engaged in manufacturing, processing and trading of Lab Grown Diamonds. The firm has two production setups in Mumbai at Kandivali and Dahisar. The firm deals in LGD ranging from 0.30 carats to 10 carats and certified stones in varied shapes like rounds, ovals, pears, cushions, emeralds, asscher, princess, marquise, and heart.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	191.60	222.12
EBITDA	81.13	33.16
PAT	21.25	41.71
Total Debt	2.46	8.74
Tangible Net-worth	11.50	33.50
Ratios		
EBITDA Margin (%)	17.31	36.53
PAT Margin (%)	10.87	18.50
Overall Gearing Ratio (x)	0.21	0.26

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22	Date(s) & Rating assigned in 2020-21
1.	Proposed Bank Facility-Fund based-Term Loan	Long Term	35.00	IVR BBB-/Stable	-	-	-
2.	Proposed Bank Facility- Fund Based-Export Packing Credit	Short Term	15.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which help corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Proposed Long Term Bank Facility-Fund based- Term Loan	-	-	-	35.00	IVR BBB-/Stable
Proposed Short Term Bank Facility- Fund Based- Export Packing Credit	-	-	-	15.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: https://www.infomerics.com/admin/prfiles/Len-Nuvo-Aeon-15032024.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 https://www.infomerics.com/.