Press Release

Akshar Impex Private Limited (AIPL)

December 11, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities /Short Term Bank Facilities	110.00	IVR BB / Stable/ IVR A4 (IVR Double B with Stable Outlook/ IVR A Four)	-	Assigned	Simple
Total	**110.00**	**(Rupees One hundred and Ten Crores only)**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned its rating to the bank facilities of Akshar Impex Private Limited due to promoter's extensive industry experience, long term strong relationship with customers and well-established sourcing network. The ratings are, however, constrained by lower scale of operations impacting the profitability margins, elongated operating cycle and weak capital structure. Other risk factors include susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk, exposure to intense competition and fragmented industry of the industry, as well as risk of inventory write down.

The 'Stable' outlook reflects Infomerics' view that the company will achieve moderate growth in FY25 based on the half yearly performance. The company's well established sourcing network, strong client relations and sound understanding of the industry dynamics is expected to support steady growth of the business going forward.

Key Rating Sensitivities:

Upward Factors

- Improvement in scale of operations while maintaining or improving the profitability margins and capital structure
- Improvement in working capital position with steady reduction in debtors and inventory levels

Downward Factors

- Any significant decline in revenue and profit margin on a sustained basis
- Further deterioration in working capital cycle

- Deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Promoters' extensive industry experience**

AIPL is headed by Mr. Chandresh Gandhi, having experience of 51 years in Cut and Polished Diamond (CPD) industry, looks after manufacturing and purchasing of rough diamonds and overall management of the entity. His family has been engaged in the CPD business for more than four decades. He is supported by his son Mr. Vishal Gandhi along with a team of professionals having suitable experience in the CPD industry. The promoters travel widely to understand the demand and specifications of their customers. They have established wide ranging contacts with all the important players both in India and other countries.

- **Long term strong relationship with customers**

The customer profile of AIPL mainly comprises of jewellery manufacturers, wholesalers who in turn sell the polished diamonds to jewellery manufacturers and other CPD players. AIPL has a direct sales channel in India and overseas which aids marketing and selling of the products. AIPL also sells its products online over R2Net.com, an online diamond wholesaler and retailer based in USA. The company has frequently participated in international exhibitions to promote its brand and increase sales, in cities like Hong Kong, Las Vegas etc. It is a designated three-star export house by the Government of India. Further, the company also have developed their own grading system for bigger size diamonds of 1 carat & above which is duly certified and internationally recognized by GIA, HRD Antwerp, AGS (American Gem Society), EGS (European Gemological Laboratory) and IGI (International Gemological Institute). This lends greater credibility to the company's reputation among clients.

- **Well-established sourcing network**

The company imports rough diamonds from De Beers Group of Companies, Antwerp, Russia, South Africa, Israel, Botswana, Dubai, etc. as well as procures it from domestic suppliers. However, the company is not a DTC site holder and purchases roughs from

Alrosa (Russia) and Okavango (South Africa) and it participates in tenders floated by DeBeers for sale of roughs and also purchases roughs from Israel based companies such as Panfour and Steinmetz. This allows the company to buy without having to compulsory take monthly sights as compared to other sight holders and has the freedom to analyse its requirement and buy roughs accordingly.

Key Rating Weaknesses

- **Lower scale of operations impacting the profitability margins**

The operating income has witnessed ~12% decline in past three year from Rs 510.05 crores in FY22 to Rs. 325.90 crores in FY24. Consequently, the EBITDA and PAT margins have declined to 3.15% and 0.52% respectively in FY24 as compared to 3.74% and 1.64% respectively in FY22. The decline in TOI is on account of oversupply in market and sluggish global demand. The customers are also shifting towards smaller carat sizes of natural diamonds as well as towards lab-grown diamonds over traditional diamonds as they are more affordable. Lab Grown Diamond contributed ~44% of revenue in FY24 with remaining contribution from natural diamonds. However, AIPL is expected to demonstrate a moderate growth in FY25 based on the half yearly performance shared by the company with Infomerics.

- **Elongated operating cycle**

The Indian CPD industry is largely export-oriented and characterized by intense competition which requires extension of relatively long credit periods to customers which may even get stretched further in the event of a demand slowdown. The operating cycle of the company remained high at 271 days in FY24, compared with 192 days in FY23 (203 days in FY22). The reason for this is increase in inventory holding days, as for AIPL the inventory levels were always on the higher side. CPD players generally maintain moderate to high levels of inventory of raw material and finished products at all points in time to service customer orders in a timely manner. Since then, the inventory level of the company has come down from Rs. 191.21 crore as on March 31, 2024, to Rs. 165.75 crore as on September 30, 2024, as the company has rationalised its purchases in line with subdued market conditions. This will reduce the average inventory days and consequently, the operating cycle is expected to reduce moderately by the end of FY25.

- **Weak capital structure**

The tangible net-worth was Rs. 172.14 crore as on March 31, 2024. The total debt decreased from Rs. 154.51 crore as on March 31, 2022, to Rs. 96.35 crore as on March 31, 2024, therefore, leverage ratios remained comfortably on lower side and improved over past three years. The overall gearing ratio remain stood at 0.56 times and TOL/TNW was 0.86 times as on March 31, 2024. However, the debt protection metrics like interest coverage has weakened at 1.25x as on March 31, 2024, as compared to 2.52 times as on March 31, 2022, on account of lower revenues resulting in subdued absolute EBITDA amount. In the event of inadequate cash accruals in future, timely debt servicing is expected to be achieved through promoter fund infusions. The promoters have already infused Rs. 3.50 crore as on date and are expected to provide need-based funding in the company to support the operations and repay the debt obligations.

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

AIPL is an exporter as well as importer and it has availed export packing credit facilities from the lenders which makes its revenues as well as profit margins susceptible to forex fluctuations. The profitability margins of AIPL are also exposed to the price of rough diamonds and polished diamonds which are market driven and volatile in nature. Around 40% diamonds are imported from Russia and Israel where war is taking place. This has resulted in increase in prices of rough diamonds, while the economic uncertainty in key markets such as US and China has led to reduced consumption of polished diamonds, thereby negatively impacting revenues of CPD players.

- **Exposure to intense competition and fragmented industry**

The entry barriers in the diamond industry are low because of relatively low capital and technology requirements leading to numerous unorganized players in the industry. The intense competition prevailing in the industry, affects AIPL's pricing flexibility to a large extent. Competition has further intensified as the demand for polished diamonds had started weakening since last fiscal amid slowing economic activity leading to a volumetric drop across the industry of ~25%.

- **Risk of inventory write down**

The company has been prudent in churning the inventory by higher volume sales due to which it is likely to achieve a higher turnover in FY25. The purchases of natural and lab grown diamonds are being made at lower prices in current year as compared to last year and despite the fall in realisation of finish products the company expects to maintain EBITDA margins as level similar to FY24. However, in the scenario where the demand declines sharply and there is also large decline in the value of polished diamonds, the company would face a situation where it has a high inventory of both lab grown and natural diamonds, and their value has depreciated. This could result in the company being forced to recognise loses due to inventory write down.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity –Stretched

The overall liquidity position of the company is expected to remain stretched in the near term, mainly owing to its large scheduled repayments. AIPL has earned a gross cash accrual of Rs. 2.99 crore in FY24. Further the company is expected to earn a gross cash accrual in the range of ~Rs. 3-5 crore annually as against larger scheduled debt repayment obligations during FY25-27. However, the promoters have already infused Rs. 3.50 crore as on date and are expected to provide need-based funding in the company to support the operations and repay the debt obligations. The company also has liquidity in the form of undrawn working capital limits. The company demonstrated ~62% average utilisation of fund-based limits, during the past 12 months ended September 2024 indicating moderate liquidity buffer.

About the Company

Akshar Impex Private Limited (AIPL), is engaged in manufacturing and trading of rough diamonds and cut and polished diamonds. They manufacture an expansive range of fine diamonds from 1 carat to 5 carats. The polish diamond is manufactured at labs situated in Surat, Gujarat, with installed capacity of 3,50,000 CKT. The whole manufacturing process is fully computerized right from the rough cleaving stage to the final stage of production. It is a designated three-star export house status by the Government of India. Further, the company also has developed its own establishment for certified gradation system for bigger size diamonds 1 carat & above which is duly certified and internationally recognized by GIA, HRD Antwerp, AGS (American Gem Society), EGS (European Gemological Laboratory) and IGI (International Gemological Institute). AIPL majorly exports to USA, Belgium, UAE, etc. and has domestic sales. Around ~60% of total revenue of AIPL is from exports.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	474.23	325.90
EBITDA	12.15	10.27
PAT	1.92	1.69
Total Debt	122.88	96.35
Tangible Net Worth	170.44	172.14
EBITDA Margin (%)	2.56	3.15
PAT Margin (%)	0.40	0.52
Overall Gearing Ratio (x)	0.72	0.56
Interest Coverage (x)	1.33	1.25

** As per Infomerics Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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 outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
	PR Date	**December 11, 2024**			-	-	-
1.	Export Packing Credit	Long Term/ Short Term	110.00	IVR BB/ Stable/ IVR A4	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly 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 helps 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 and definition of ratings please visit www.infomerics.com.

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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
Export Packing Credit	-	-	-	110.00	IVR BB/ Stable/ IVR A4

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

Name of the company	Consolidation Approach

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Akshar-Impex-dec24.pdf

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

Name of the Instrument		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

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.