Narola Diamonds Private Limited (Revised)

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	120.10 (Enhanced from 52.55)	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable / CARE A4; (Double B Minus; Outlook: Stable / A Four)
Long Term / Short Term Bank Facilities	-	-	Withdrawn
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**120.10 (₹ One Hundred Twenty Crore and Ten Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

CARE RATINGS has withdrawn the ratings for the various long-term and short-term bank facilities on the basis of No Dues Certificate provided by the client.

The revision in the ratings assigned to the bank facilities of Narola Diamonds Private Limited (NDPL) formerly known as Narola Gems factors in the established market presence backed by extensive experience of the promoters in the cut and polished diamond (CPD) industry, its well established relationship with customers as well as suppliers across various geographies. Furthermore, the ratings also factor in the improvement in scale of operations leading to higher cash accruals in FY22 (refers to the period from April 01 to March 31) as well as better business momentum evident in 5MFY23 (refers to the period from April 01 to August 31) backed by moderate financial risk profile.

The rating strengths are tempered with working capital-intensive operations of the company and profitability margins having susceptibility to volatility in the prices of rough as well as CPD and foreign exchange rate fluctuations. The rating also factors in inherent risk and fragmented nature of cut and polished diamond (CPD) industry.

Rating Sensitivities

Positive Factors

- Consistent growth in its scale of operations above Rs.1,700 crore along with improvement in PBILDT margin to over 5.5% on a sustained basis
- Effective management of its working capital requirements leading to reduction in reliance on working capital borrowings and contraction in its operating cycle on a sustained basis
- Improvement in TOL/TNW at around 2.0 times on sustained basis

Negative Factors

- Significant decline in revenue or lower PBILDT margin resulting into lower cash accruals on sustained basis.
- Any significant impact on the scale and profitability due to Russia Ukraine war.
- Any debt-funded capex or extensive working capital utilization leading to increase in debt levels, deteriorating overall gearing ratio above 1x.
- Elongation in its operating cycle particularly in inventory days to go beyond 180 days on a sustained basis.

Detailed description of key rating drivers

Key Rating Strengths

Experience and long-standing track record of the promoters in CPD industry

Narola Diamonds Private Limited (NDPL), erstwhile Narola Gems., commenced operations as a partnership firm in 1989 which has been which has been converted into a private limited company in July 2021. The business is a family run business and presently it is handled by Mr Dalsukhbhai Narola and Mr Dhirubhai Narola. The company is primarily engaged in import of rough and export of cut & polished diamonds. Mr Dalsukhbhai Narola and Mr Dhirubhai Narola having experience of more than three decades in managing the day-to-day affairs and they are assisted by other team members. Second generation of promoter group (family members of key promoters) have already been inducted into the business and are being trained under mentorship of key promoters for future leadership roles.

Long-standing relationship with customers

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company has long standing relationships with a diversified clientele base across geographies. The company is primarily into export of cut and polished diamonds which constitute around 52% of the sales in FY22. As on November 30, 2022, the company has reported TOI of around Rs. 1,018.58 crores. In its diamond division, the company has the requisite expertise to cut and process a range of rough diamonds across various shapes, sizes, colour, and clarity. The company is engaged in processing of carat sizes ranging from 0.5 cent to 5 carat and above. The company has its presence across major G&J market across geographies. The company continues to cater to reputed client base with repeat orders. Revenue-wise, Hong Kong continues to remain the major market for NDPL accounting for about 39.27% of the total sales in FY22 followed by UAE contribution of 21.36% of the total sales. The company draws operational efficiencies from its diverse product profile and varied client base across geographies. During FY22, NDPL top ten customers for CPD sales accounted for around 26.47% (P.Y: 39.60%) of the net sales.

Improvement in revenue & profitability
The company's total operating income (TOI) grew by around ~65% on Y-o-Y to Rs.1,595.95 crores in FY22 as compared to Rs 966.09 crores in FY21. The increase in TOI is due to improved demand from the diamond consuming countries like Hong Kong, USA, ISRAEL, UAE etc. and due to increase in prices. During 5MFY23, company has achieved TOI of Rs.713.84 crores. PBILDT margin has improved to 5.61% in FY22 as compared to 4.58% in FY21. PAT margin, also improved to 3.63% in FY22 as compared to 2.75% in FY21. Further, it has reported GCA of Rs. 61.47 crores in FY22 as compared to Rs. 27.78 crores in FY21 owing to improvement in sales coupled with profitability.
During 5MFY23, company has achieved PBILDT margin of 5.42% and PAT margin of 3.53% whereas GCA stood at Rs. 26.46 crores.

Moderate financial risk profile
The adjusted tangible net worth stood at Rs. 159.24 crore (incl quasi equity) as on March 31, 2022, with moderate total outside liabilities to adjusted net worth ratio of 3.73 times. NDPL's capital structure (including part of unsecured loans as quasi equity) remained comfortable marked by overall gearing of 0.59x in FY22 as compared to 0.73x in FY21. Debt service indicators marked by total debt/GCA stood comfortable at 1.34x in FY22 as compared to 2.68x in FY21 on account of improvement line with gross cash accruals. The PBILDT interest coverage ratio is at 13.91x in FY22 as compared to 25.04x in FY21 owing to improvement in profitability.

Key Rating Weaknesses
Working capital intensive operations
Gross current assets (GCA) stood at 164 days as on March 31, 2022, driven by inventory of 103 days and receivables of 13 days. GCA are likely to be in the similar range over the medium term.
The working capital cycle improved to 60 days as on March 31, 2022, vis-à-vis 77 days as on March 31, 2021, mainly on account of improvement in sales as well as in credit period. Inventory days remain remained higher at 103 days in FY22 as compared to 99 days in FY21. The collection period stood at 13 days in FY22 as compared to 12 days in FY21. Further, the credit period has stood at 57 days in FY22 as compared to 45 days in FY21.

Susceptibility to volatility in the prices of rough as well as CPD and exchange rate fluctuations
The diamond industry is highly fragmented because of low entry barriers on account of relatively low capital and technology requirements, attracting numerous unorganised players across the country. The company is also exposed to risks related to volatility in diamond prices. The company maintains inventory of rough and polished diamonds, of which rough diamonds are usually procured from the international market. This makes the profit margins of the company vulnerable to fluctuations in rough and polished diamond prices and with relatively limited value addition, operating profitability has been moderate around 3% to 6% over the last four years. Further, the Russia-Ukraine confrontation may impact diamond polishers. Alrosa, the largest diamond miner of Russia, accounts for~30% of the global production of rough diamonds, the prices of which had surged 21% in the last one year. With the on-going Russia-Ukraine war and Russia being an important exporter of rough diamonds globally, its prices could see a rise and hence the sustainability of healthy operating margin going ahead will remain a key rating sensitivity.
NDPL's revenues is denominated in foreign currency (primarily in dollar terms). Hence, the company is exposed to adverse fluctuations in currency markets. However, a natural hedge, arising from the import of rough diamonds, packing credit in foreign currency and forward contracts provide protection against exchange rate fluctuation to a large extent.

Intense competition from large number of players in organized and unorganized sector
The Cut & Polished Diamond (CPD) industry in India is highly fragmented with presence of numerous unorganized players apart from some very large integrated G&J manufacturers leading to high level of competition. Although India plays a prominent role in G&J industry in terms of processing and consumption, it significantly lags behind in mining of gold and diamonds because of meagre reserves. The Indian CPD industry is working capital intensive and primarily export oriented. Going forward, larger integrated players with strong sourcing relationships for raw material, those with better operating efficiencies, superior marketing network, geographically diversified clientele, and a conservative forex/working capital management policy, are likely to exhibit more stable credit profiles.

Liquidity position: Adequate
The company has adequate liquidity marked by healthy GCA with nil repayment obligations over a medium term. The max average utilization of working capital limits for the past twelve months ending November 2022 was 72.37% implying unutilized

to the extent of 27.63% providing cushion, utilization of bank lines. The company has generated gross cash accruals of Rs. 61.47 crores in FY22. The Company's current ratio stood at a moderate level of 1.26x as on March 31, 2022 (PY:1.50x). As on March 31, 2022, unencumbered cash and bank balance stood at Rs. ~4.65 crores. Further, Rs. 9.10 crores have been kept as collateral with banks. As on Sep 30, 2022, the company has maintained free cash bank balance of Rs. 3.75 crores and FD marked as lien of Rs. 27.10 crores. The company plans to undertake capex for setting up manufacturing plant with cost of around Rs. 60 crores over the next 3 years through internal accruals.

Analytical approach: Standalone approach
CARE has analysed the credit risk profile of Narola Diamonds Private Limited on a Standalone basis and there has been conversion of partnership firm Narola Gems to Private company limited by shares M/s Narola Diamonds Private Limited, the financials of the partnership entity has also been taken into consideration as the business remains the same. While calculating the adjusted net worth CARE ratings has considered subordinated unsecured loans as quasi equity.

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cut and Polished Diamonds
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company
Narola Diamonds Private Limited (NDPL), erstwhile M/s. Narola Gems., commenced operations as a partnership firm in 1989 which has been which has been converted into a private limited company in July 2021. The business is a family run business and presently it is handled by Mr Dalsukhbhai Narola and Mr Dhirubhai Narola. The company is primarily engaged in import of rough and export of cut & polished diamonds. Mr Dalsukhbhai Narola and Mr Dhirubhai Narola having experience of more than three decades in managing the day-to-day affairs and they are assisted by other team members. Second generation of promoter group (family members of key promoters) have already been inducted into the business and are being trained under mentorship of key promoters for future leadership roles.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	5MFY23 (UA)
Total operating income	966.09	1,595.95	713.32
PBILDT	44.25	89.47	38.67
PAT	26.58	57.91	NA
Overall gearing (times)	0.73	0.59	NA
Interest coverage (times)	25.04	13.91	NA

A: Audited, UA - Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-EPC/PSC		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-EPC/PSC		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	120.10	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-Post Shipment Credit		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Standby Line of Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Forward Contract		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-EPC/PSC	LT/ST*	-	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Jul-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (28-May-20)	-
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	120.10	CARE BBB; Stable / CARE A3+	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Jul-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (28-May-20)	-
3	Fund-based - LT/ ST-EPC/PSC	LT/ST*	-	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Jul-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (28-May-20)	-
4	Fund-based - LT/ ST-Standby Line of Credit	LT/ST*	-	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (16-Jul-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (28-May-20)	-
5	Non-fund-based - ST-Forward Contract	ST	-	-	1)CARE A4; ISSUER NOT COOPERATING* (08-Aug-22)	1)CARE A4; ISSUER NOT COOPERATING* (16-Jul-21)	1)CARE A4+; ISSUER NOT COOPERATING* (28-May-20)	-
6	Fund-based - LT/ ST-Post Shipment Credit	LT/ST*	-	-				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Insurance	All the assets charged/financed by the bank to be fully insured for 110% of the value in the name of borrower with bank clause
II. Penal interest	Applicable rate + 2% for non-submission of stock statement and other information MCLR + 2% for other irregularities rendering the account overdue, shortfall in drawing power, devolvement of LCs etc.
B. Non-financial covenants	
I. Change in management	The borrower should not make any material change in their management set up without the bank's permission. No material change in the shareholding pattern of the company which has an effect of a possible change in the management control of the company without the prior approval of the bank
II. Submission of audited financial statement	The borrower to furnish to the bank every year two copies of audited balancesheet and profit and loss account statement of the borrower immediately on being published / signed by the auditors, along with usual renewal particlulars

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-EPC/PSC	Simple
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3	Fund-based - LT/ ST-Post Shipment Credit	Simple
4	Fund-based - LT/ ST-Standby Line of Credit	Simple
5	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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