Suashish Diamonds Limited

March 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	148.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	148.00 (Rs. One Hundred Forty-Eight Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Suashish Diamonds Limited (SDL) continues to derive strength from the vast experience and resourcefulness of the promoters, SDL's established track record of more than two decades in the G&J industry and healthy profitability margins. The ratings also take into consideration comfortable capital structure and strong liquidity position. The above strengths are however, tempered down by customer concentration risk, volatility in raw material prices and presence in a highly competitive and fragmented industry.

Rating Sensitivities

Positive Rating Sensitivities

- *Sustenance of PBILDT margin in jewellery business above 15%*
- *Sustained increase in scale of operations of the company above Rs.700.00 crore*

Negative Rating Sensitivities:

- *Decline in operating profitability of the jewellery business below 10% on a sustained basis*
- *Increase in overall gearing above 0.60x on a sustained basis*
- *Significant increase and sustained level of operating cycle above 75 days*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and reputed promoters in G&J industry

SDL is engaged in manufacturing of diamond studded jewellery having presence in domestic as well as overseas market. Mr. Ashish Goenka, son of Mr. Ramesh Goenka, is the Chairman & Director of SDL with an experience of over 25 years in the Gems & Jewellery (G&J) Industry. The management of the group is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

Gradual shifting of business from CPD to diamond studded jewellery market with healthy profitability margins

During FY20, the total operating income decreased by 17.72% to Rs. 439.96 cr. from 534.70 cr. during FY19. The company has shifted its focus on manufacturing jewellery which is relatively a better margin business than CPD or trading of diamonds. Sales of diamonds has decreased from Rs. 11.80 cr. during FY19 (2.43% of total sales) to Rs.6.43 (1.34% of total sales) cr. during FY20.

Comfortable leverage and debt coverage indicators

SDL uses working capital facility secured against Debt Mutual Funds pledged by M G Investment (MGI - subsidiary of SDL). SDL's utilization of working capital facilities remained comfortable at an average of 22.81% for 12 months ended January, 2021. Gearing ratio improved to 0.07x during FY20 from 0.11x during FY19 due to decrease in total debt (working capital borrowings) as on 31st March 2020.

Diversified geographical presence & customer base

SDL has a vast global presence with clients based out of almost all the major gems and jewellery hubs in the world. The company is primarily an exporter with exports contributing a significant part of the total revenue. The main markets for their exports are based in multiple countries – USA being the highest, followed by Canada and UK.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Healthy profitability margins in jewellery business though margins suffered due to loss in investments

PBILDT margins are better in jewellery business compared to CPD business due to higher value addition. During FY20, profitability was impacted due to loss incurred in the investments. Due to significant decline in the Equity markets during the last week of March 2020, SDL had to cover certain F&O positions which resulted in a one-time loss. The company also recorded certain amount of notional loss owing to the lower valuations of its investments in Mutual funds. In terms of operational performance, SDL has fared well during FY20 and has shown robust recovery in the second and third quarter of FY21, post the unlocking of the economy.

Comfortable working capital cycle

The working capital cycle of SDL though deteriorated to 50 days in FY20 compared to 34 days in FY19, but it is still comfortable considering working capital intensive nature of jewellery manufacturing business. The deterioration in working capital cycle was primarily on account of decrease in creditors' payment period. During FY20, the company had a credit period of around 62 days compared to 122 days in FY19.

Key Rating Weaknesses

Client concentration risk exists

During FY20, top ten customers accounted for 91.88% (FY19: 92.40%) of the total revenues, of which 85.55% of the revenues were towards group affiliates, Suashish Jewel Inc (USA) & Suashish Jewels Canada Inc. Thus, customer concentration risk exists to a large extent.

Susceptibility to volatility in raw material prices

The profitability margins of SDL are susceptible to the prices of rough diamonds, C&P diamonds and gold which are market driven and volatile in nature. Although the volatility of raw material prices is limited for SDL by procuring gold from local banks on cash basis and backed by orders any adverse movement in raw material prices can affect the profitability of the company.

Forex Risk; albeit natural hedge exists

SDL is in the business of manufacturing and export of diamond studded Jewellery and trading in diamonds where majority of its receivables are in foreign currency i.e. USD. SDL follows the principles of natural hedge by maintaining assets and liabilities in same currency i.e. in USD or INR. Further, loans are either availed in INR or in USD (with forward cover) to arrive at the loan in equivalent INR. During FY20, SDL reported exchange loss to the tune of Rs. 2.47 cr. (PY loss of 1.09 cr.)

Industry Prospects:

Diamond Jewellery industry in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated G&J manufacturers leading to a high level of competition. This is primarily export-oriented and is characterized by working capital intensive operations and thin profitability. Steady demand of diamond and gold jewellery from USA is expected to support the demand for manufacturers in India. The larger integrated players with strong sourcing relationships for raw material, 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: Adequate

SDL does not have any long-term debt. Liquid investments held in the books of MGI (subsidiary of SDL) are pledged against working capital facilities obtained by SDL. The overall gearing ratio improved to 0.07x in FY20 from 0.11x in FY19 due to reduction in total debt as on 31st March 2020. With comfortable gearing, the issuer has sufficient gearing headroom to raise additional debt. Operating cycle has increased to 50 days in FY20, as compared to 34 days in FY19 on account of decrease in creditors days. Credit period has decreased to 62 days in FY20 compared to 122 days in FY19. Similarly, collection period has decreased to 77 days in FY20 from 116 days in FY19. Average inventory holding period has also gone down to 35 days in FY20 from 40 days in FY19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing companies
Liquidity Analysis of Non-Financial Sector
Notching by factoring linkages in Ratings

About the Company
Suashish Diamonds Ltd (SDL) is the flagship company of Suashish Group. SDL is engaged in the manufacturing of diamond studded jewellery. The company has jewellery manufacturing facilities at Borivali and SEEPZ in Mumbai. Over a period of time, the group has expanded its operations and established subsidiaries/associates in the key Gems & Jewellery markets of USA and Canada.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Income from Operations	534.70	439.96
PBILDT	111.72	7.30
PAT	81.68	-14.42
Overall Gearing (times)	0.11	0.07
Interest Coverage (times)	16.23	1.00

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based – Long Term	-	-	-	148.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	148.00	CARE A-; Stable	-	1)CARE A-; Stable (26-Feb-20)	1)CARE A-; Stable (18-Feb-19)	1)CARE A-; Stable (26-Mar-18) 2)CARE A-; Stable (21-Apr-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based – Long Term	Simple

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

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