# Asian Star Company Limited

October 07, 2021

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term / Short Term Bank Facilities | 900.00 | CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus) | Reaffirmed; Outlook revised from Negative |
| **Total Bank Facilities** | **900.00 (Rs. Nine Hundred Crore Only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of long term and short ratings and revision in the outlook for the bank facilities of Asian Star Company Limited (ASCL) factors faster than expected industry improvement on account of recovery in export orders from major diamond consuming countries, price over volume strategy adopted by miners which derived the demand-supply balance and scale of operations reaching pre-pandemic level. The rating also factors in well-established experienced promoters, the company's diversified business with established international marketing setup through associates, improving capital structure and moderate debt coverage indicators. The rating further factors in its association with the world's leading diamond mining companies which ensures steady supply of rough diamonds and its established relationship with customers.

The rating strengths are, however, tempered by continuous decline in revenue up-to FY21 (A), thin profitability margin, working capital intensive operations of the company and susceptibility of the profitability to volatility in the prices of rough diamonds. The rating also factors in inherent risk and fragmented nature of cut and polished diamond (CPD) industry.

***Key rating sensitivities***

**Key Positives (Factors that can lead to positive action/upgrade)**

- Improvement in scale of operations over Rs.3000 crore with PBILDT margins over 6.00% on sustained basis
- Working capital cycle to be less than 100 days on sustained basis

**Key Negatives (Factors that can lead to negative action/downgrade)**

- Overall gearing of more than 0.75x
- Substantial decline in revenue from envisaged level
- Non-repatriation of free cash from subsidiary companies

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Experienced promoters**

Mr. Dinesh Tarachand Shah, Chairman of Asian Star Co. Ltd. has over 58 years of experience in the G&J industry. Mr. Vipul Shah, CEO & MD also has vast experience in the G&J industry. He has been instrumental in establishing ASCL's global network and in developing ASCL's jewelry business. He is the Vice Chairman of the Committee of Administration of the G&J Export Promotion Council (GJEPC). He is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

**Diversified business profile with international marketing setup and established relationship with customers**

ASCL has diversified business profile with its reach to both domestic and international markets. ASCL procures rough diamonds at group level and process it into cut and polished diamonds in the manufacturing facility in Surat, Gujarat. The polished diamonds are then sold across the globe. During FY21, the revenue from export market was around 73% as compared to 68% in FY20. The improvement in export orders was due to improved demand from Europe and USA, considering recovery in jewellery demand post pandemic led by robust vaccination drives, stimulus package and reduced leisure spending.

As ASCL caters to diversified market, it has its revenue reach to major export destinations i.e. Middle East (UAE), Europe and USA, accounted for 57% of the total revenue in FY21 as against 53% in FY20. Exports to the USA, Europe and Hong Kong has witnessed an upward trend, which augured well for ASCL's growth. Besides its subsidiaries in USA, Hong Kong and

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

UAE, ASCL has 18 marketing arms spread across Asia, Europe and USA. These marketing arms have enabled ASCL to establish its customer base across the globe. During FY21, the sales from top 10 customer accounted for about 32% as against 37% in FY20, while the sales to related party was at approximately 12.21% of the top 10 customers in FY21. Titan Company Limited continued to be largest customer of ASCL during FY21. However, during FY21, sales to Titan Company Limited reduced due to lower demand of jewellery led by closure of jewellery stores on account of covid lockdown.
ASCL plans to leverage its wide spread distribution network for capturing jewellery sales of countries through its marketing arm. Unlike other large CPD players, 27% of ASCL group sales come from the domestic business, and its share has reduced during FY21 compared to last 2 fiscal years.

**Improved performance from Q3FY21 onwards led by strong pick up in overall demand for CPD**
ASCL on a consolidated basis, reported decline in total operating income (TOI) by 16% to Rs.2561 crore in FY21, however, started reporting growth from Q3FY21. Further, during Q1FY22 ASCL on a consolidated basis reported a TOI of Rs.864 crore, witnessing a growth of 5% on a YoY basis as compared to Q1FY20 (pre covid level). Further, during April 2021 – July 2021, company has shown recovery in total operating income following unlocking. Furthermore, till July 2021 the company has achieved ~36% of its projected sales revenue for FY22.
CARE expects the growth in revenue to continue given continuity of robust vaccination drives, reduced leisure spending and recovery packages announced by governments and it will remain key rating monitorable.

**Improved capital structure and moderate debt coverage indicators**
Overall gearing ratio improved to 0.45 times as on March 31, 2021 (as compared to 0.57 times as on March 31, 2020) on account of reduction in utilisation of working capital borrowing in line with TOI and increase in net worth due to accretion of profits. The company had total debt of Rs.549.05 crore as on March 31, 2021 out of which Rs.127.47 crore accounts for loan from promoters (Rs.51.23 crore was long term loan and Rs.76.24 crore was short term). These loans are non-interest bearing and short-term loans are repayable on demand. Total Debt/GCA remained moderate at 8.53x as on March 31, 2021 while the interest coverage ratios improved to 16.86x in FY21 5.23x in FY20 as a result of reduced total debt and interest cost. The reduction in interest cost was due to reduced utilisation of working capital borrowing and declining London Interbank Offered Rate (LIBOR). ASCL has its facilities linked to LIBOR.

**Sourcing of rough diamonds from world's leading diamond mining companies**
ASCL has rough supply contracts with all the major mining companies i.e. De Beers Group (DTC sight-holder since 1993), Alrosa Alliance (Member of Russian based rough diamond mining company Alrosa Company Ltd.) and Dominion Diamond Corporation (a Canada-based rough diamond mining company, Dominion Preferred Purchaser status).
Majority of purchases are made at the group level from miners as compared to secondary market. During FY21, the purchases from miners accounted for 57% of total purchases and purchases from related party (Asian Star DMCC, a Dubai based subsidiary) accounted for 11% of total purchases.

**Key Rating Weaknesses**
**Declining TOI trend along with thin profitability margins up-to FY21 albeit, PBILDT margins improved during H2FY21**
ASCL is focused on small size diamonds (less than 1 carat) which are used in studded jewelry. During FY21, ASCL on a standalone basis contributed 67% to consolidated revenues as compared to 71% in FY20. ASCL on a consolidated basis, reported decline in total operating income by 16% to Rs.2561 crore during FY21. The company also reported declining margin trend to from 5.13% in FY19 and 3.81% in FY20 to 3.14% in FY21. The same has been on account of lower contribution from high margin trading sales. Substantial decline in TOI from envisaged level will be key rating sensitivity.

**Working capital intensive nature of business**
The industry in which ASCL operates continue to remain working capital intensive due to inherent nature of the business. ASCL procures rough diamond mainly on advance payment or cash basis whereas it extends credit terms to its customers for sale of polished diamonds and has to maintain high inventory levels, hence the operations remain working capital intensive.
ASCL's receivables days was around 104 days and inventory days stood at 76 days in FY21, this was due to higher sales witnessed during Q4FY21 and especially during last couple of months of FY21 along with increased inventory for rough diamond for expected sales going forward. Due to this bank line utilisation also witnessed an increase as on March 31, 2021. The creditor days was 25 days in FY21 as against 20 days in FY20. ASCL's operating cycle increased to 155 days in FY21 vis-à-vis 133 days in FY20; due to increase in inventory days and stretched receivables, further it is to be noted that the operations were largely for 9 months period of FY21 due to covid-19 impact in Q1FY21.

Though the working capital cycle has remained more or less stable over the years, the contribution of bank borrowing in financing the current assets has been decreasing, while the contribution of promoter owned funds has been increasing over the years. This is well reflected in the average bank borrowing utilization of 34% during May 2020 – April 2021.

**Profits exposed to volatility in the prices of rough and polished diamonds**
ASCL is dependent on imports to meet its requirement of rough diamonds. The profitability margins of ASCL are susceptible to the price of rough diamonds and CPD which are market driven and volatile in nature. However, given the direct sourcing arrangement with miners, the volatility risk reduces to certain extent. Manufacturers in the midstream segment of the CPD industry have limited bargaining power vis-à-vis both the diamond mining companies as well as the jewelry retailers have larger part of the profitability in the value chain. The increase or decrease in the price of the rough diamond impact all the CPD manufacturers in the industry equally and so any increase in the price of rough diamond is pass on to the buyer of polished diamond.

**Inherent risk and fragmented nature of CPD**
India is the world's largest center for cutting and polishing of diamonds. However, the Cut & Polished Diamond (CPD) 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. The export oriented CPD industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry.

**Industry: Gems & Jewellery**
India is the largest centre for cut and polished diamonds, annually processes about 1 billion pieces of diamonds valued at USD 23 bn. India exports 90% of the cut and polished diamonds and contributes to 29% of the global jewellery consumption. Today, 14 out of every 15 diamonds sold in the world are processed in India. The country's share in global diamond market stands at 65% in value terms and 85% in volume terms.
FY21 was an exceptional year with supply chain disruptions caused by the pandemic. Yet the Indian gems and jewellery industry exhibited resilience, adapted to the new normal and strived towards attaining recovery in exports, especially in H2FY21.
The miners adopted price over volume strategy which protected stock piling and eased pressure on inventory. The pent-up demand and healthy export orders during H2FY21 from the USA and China, which consume 50% and 20% of diamonds produced in the world, respectively, resulted from robust vaccination drives, stimulus package and reduced leisure spending helped reviving the CPD industry at faster pace. As per GJEPC, exports of cut and polished diamonds declined 12.1% from USD 18.66 bn in FY20 to USD 16.4 bn in FY21. However reported recovery on M-o-M basis from USD 0.92 bn in July 2020 to 2.26 bn in July 2021. Going forward, larger integrated players with strong sourcing relationships for raw material (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), those with better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy, are likely to exhibit better & stable credit profiles.

**Liquidity analysis: Adequate**
ASCL has unencumbered cash & cash equivalent (including current investments) on consolidated basis of Rs. 197.45 crore as on March 31, 2021 as against Rs.195.75 crore as on March 31, 2020 and on standalone basis of Rs.99.38 crore as on March 31, 2021 as against Rs.60.40 crore as on March 31, 2020, providing comfortable liquidity buffer to the company. ASCL has current investment in bonds, mutual funds and quoted equity of Rs.33.99 crores as on March 31, 2021 as against Rs.17.90 crore as on March 31, 2020. Furthermore, ASCL is utilizing around 34% of its working capital borrowings in the past 12 months (from May 2020 – April 2021). Its current ratio stood at 2.15x as on March 31, 2021, which shows that there is sufficient room in the current asset book to meet the current liabilities. Promoters have provided substantial liquidity support through unsecured loans – Rs.76.24 crore short term loans from promoters and Rs.51.23 crore long term loan from related party as on March 31, 2021.

**Analytical approach:** CARE has considered consolidated financials of ASCL, while arriving at the ratings, owing to the operational and financial linkages between these entities. The details of the subsidiaries and associate company which have been consolidated with ASCL are as under:

| Sr. No. | Name of entity | Relationship with ASCL | Operational Linkages | % of ownership as on March 31, 2021 |
|---|---|---|---|---|
| 1. | Asian Star DMCC | Wholly owned subsidiary | ASCL purchase rough diamond through Asian Star DMCC | 100 |
| 2. | Asian Star Company Ltd. (USA) | Wholly owned subsidiary | This subsidiary is the marketing arm of ASCL for selling its polished diamonds in US market | 100 |
| 3. | Asian Star Trading (Hong Kong) Ltd. | Wholly owned subsidiary | This subsidiary is the marketing arm of ASCL for selling its polished diamonds in Hong Kong market | 100 |
| 4. | Shah Manufacturers | Partnership Firm | It processes the rough and polished diamonds for ASCL. | - |

**Applicable Criteria**
Consolidation
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

**About the company**
Asian Star Company Ltd (ASCL) was set up as a partnership firm in 1971 by the Shah and Kothari families. In the year 1990, the management control of the company was vested with the Shah family and in 1995 it was subsequently converted to a public limited company with CIN - L36910MH1995PLC086017. In 1996, ASCL was listed on the BSE and as on September 20, 2021 company had market capitalization of ~Rs.1595 crore. ASCL is a recognized Four Star Trading House. ASCL's primary business involves Cutting and Polishing of Diamonds (CPDs) of less than one carat. The company also manufactures diamond-studded gold and platinum jewelry. ASCL is partially integrated across the G&J value chain from procurement of rough diamonds, diamond cutting & polishing to jewelry manufacturing and distribution directly to retailers across the globe. The company has a strong global presence with 21 marketing arms (including subsidiaries) spread across key diamond hubs located in Asia, Europe and America. ASCL's production facilities are located at Mumbai, Surat (Gujarat) and Hosur (Tamil Nadu). The company also has windmills in Maharashtra, Kerala and Tamil Nadu.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | 30-06-21 (UA) |
|---|---|---|---|
| Total operating income (TOI) | 3050.39 | 2561.94 | 864.92 |
| PBILDT | 116.36 | 80.49 | 29.75 |
| PAT | 63.15 | 64.04 | 20.77 |
| Overall gearing (times) | 0.57 | 0.45 | NA |
| Interest coverage (times) | 5.23 | 16.86 | 22.55 |

*A: Audited; UA: Unaudited*

**Status of non-cooperation with previous CRA: NA**

**Any other information:** NA

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

**Covenants of rated facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

**Complexity level of various instruments rated for this company**: Please refer Annexure 4

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based-LT/ST | | - | - | - | 900.00 | CARE A-; Stable / CARE A2+ |

**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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based-LT/ST | LT/ST* | 900.00 | CARE A-; Stable / CARE A2+ | - | 1)CARE A-; Negative / CARE A2+ (30-Dec-20)<br>2)CARE A-; Negative / CARE A2+ (30-Apr-20) | 1)CARE A-; Stable / CARE A2+ (19-Feb-20) | 1)CARE A-; Stable / CARE A2+ (04-Feb-19) |

** Long Term / Short Term*

**Annexure 3: Detailed explanation of covenants of the rated facilities:**

| Name of the Instrument | Detailed explanation |
|---|---|
| **Financial covenants** | |
| PCFC/PSCFC | Company to ensure no further investments in group concern or loans to group concerns without permission of bank and consortium. |

**Annexure 4: Complexity level of various instruments rated for this Company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based-LT/ST | Simple |

**Annexure 5: Bank Lender Details**
To view the lender wise details of bank facilities please click here

***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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