Asian Star Company Limited

October 10, 2022

Ratings

Facilities	Amount (₹ 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
Total Bank Facilities	**900.00 (₹ Nine Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings to bank facilities of Asian Star Company Limited (ASCL) factors in improvement in scale of operations and Profitability margins during FY22 (Audited, refers to period April 01 to March 31), led by faster than expected recovery in demand from diamond consuming nations coupled with strong domestic demand. The ratings continue to derive strength from the well-established experienced promoters, the company's diversified business with established international marketing setup through associates, comfortable 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 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.

The Ratings also takes in to account the continuing geopolitical tensions resulting in uncertainty w.r.t supply of rough diamond, continued sluggish demand from China, the second largest diamond consuming nation and continued depreciation of INR Vs USD impacting bank limits. However, the full impact of the above factors on liquidity profile of the company remains to be seen.

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 5.00% 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)

- Deterioration in overall gearing beyond 0.75x on sustained basis
- Continuing geo-political issues impacting the sector resulting in decline in TOI below 2,500 crore and PBILDT margins below 2% on a consolidated basis.
- Deterioration in liquidity or non-fungibility of cash from subsidiary companies at times of need.
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Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Arvind Tarachand Shah, Chairman of Asian Star Co. Ltd. has over 50 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 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 FY22, the revenue from export market was around 68% as compared to 73% in FY21. 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 53% of the total revenue in FY22 as against 57% in FY21. 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 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 FY22, the sales from top 10 customer accounted for about 40% as against 32% in FY21, while the sales to related party was at approximately 10.98% of the top 10 customers in FY22. ASCL plans to leverage its widespread distribution network for capturing jewellery sales of countries through its marketing arm. Unlike other large CPD

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

players, 32% of ASCL group sales come from the domestic business, and its share has reduced during FY22 compared to last 2 fiscal years.

Significant Improvement in TOI and PBILDT Margins during FY22

ASCL is focused on small size diamonds (less than 1 carat) which are used in studded jewelry. On Consolidated basis the company's total operating income (TOI) grew by 74% in FY22 to Rs.4423.07 crore from Rs 2544.85 crores in FY21. Further, during Q1FY23 ASCL on a consolidated basis reported a TOI of Rs.1265 crore, witnessing a growth of 46% on a YoY basis as compared to Q1FY22. Diamond industry being seasonal in nature, higher level of sales is booked during the second half of the FY, which coincides with festival seasons in key export market. Further, the PBILDT margin improved to 2.99% in FY22 as against 2.49% due to sharp recovery in demand from most of the diamond consuming countries. However, the margin continues to remain thin. Going forward with increase in share of jewellery segment the PBILDT margins are expected to improve from current levels.

Moderation in capital structure as on March 31, 2022; albeit improved debt protection metrices

As on March 31, 2022, total debt stood at Rs. 691.19 crore as against Rs 549.05 crores. The same comprised of working Capital borrowings of Rs 569.37 crores and unsecured loan from promoters Rs. 121.82 crore as against the tangible net worth of Rs.1313.39 crore as on March 31, 2022. Over the years, with accretion of profits to its net-worth coupled with nil long-term debt and the capital structure of the company marked by TOL/TNW remained comfortable at 0.83x as on March 31, 2022 (as compared to 0.68 in FY21). As on March 31, 2022, overall gearing has also remained stable at 0.53x (PY 0.0.45x). Further, the debt coverage indicators showed a strong improvement as on March 31, 2022. The total debt/GCA, which improved and stood at 6.61x as at the end of FY22 (as compared to 8.53x in FY21) and the PBILDT interest coverage ratio also was at 7.28x in FY22 as against PY 4.35x. on account of robust sales with higher margins.

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).The access to the primary sources of rough diamonds imparts a significant competitive advantage to the group as it ensures access to consistent supply of quality rough diamonds. Furthermore, it enables the group to plan production efficiently as the delivery timings of rough supplies are reasonably known to sight holders in advance. This enables the group to service a large customer base efficiently. Majority of purchases are made at the group level from miners as compared to secondary market. During FY22, 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

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 operations are working capital intensive as rough diamond procurement is 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. The working capital cycle improved to 96 days as on March 31, 2022, vis-à-vis 155 days as on March 31, 2021, mainly on account of increased scale coupled with improved terms. ASCL deals in smaller sized diamonds where demand for GIA certification is much lesser (so time is not lost on the certification process), it has leaner inventory compared to the peer group of top-5 CPD players. Inventory days remain improved at 44 days in FY22 (PY:76 days). The average collection days has also improved to 75 days in FY22 (PY: 104 days) on account of high COD sales (around 70-75% of money is received within 25 days of billing).

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.

Cut and Polished Diamond Industry

Demand for natural diamonds surpass pre covid levels in CY21; however, geopolitical tension continues to pose challenge CY21, reported robust recovery in diamond jewelry demand backed by stimulus provided by government in key consuming nations. It crossed pre-pandemic levels with USA being major contributor to the global diamond jewellery demand followed by China and other European countries. Similar trend was also noted in Global Polished diamond demand. The demand was also fueled by lack of avenues for experience-based spending including travel and other discretionary spending primarily in USA and Europe. The robust growth in value also reflects increase in prices of polish diamond as well as precious metals during CY21. Further,

during April 2022-Aug 2022, the overall gross Exports of Cut & Polished diamonds was at US$ 10.08 bn (Rs. 78,698 crores), showing a decline of 3.68% (1.59% Rs. term) as compared to US$ 10.47 bn (Rs.77,465 crores) for the same period of previous year, led by continued slower demand in China (The second largest consuming nations for diamond jewellery) coupled with supply issues of roughs as a result of ongoing US sanctions.
Although, CPD manufacturers with strong sourcing arrangement for its rough coupled with strong marketing networks are in better position compared to its peers, however the impact of Russia Ukraine war on rough supply and its resultant impact on prices of rough and margins remains to be seen for the industry as a whole and hence remains key monitorable. This apart, the continued depreciation of INR vs USD continues to hurt CPD players.

Liquidity analysis: Adequate
ASCL has unencumbered cash & cash equivalent (including current assets) of Rs. 120.11 crore as on March 31, 2022, as against Rs. 162.84 crore as on March 31, 2021, providing comfortable liquidity buffer to the company. ASCL on a standalone basis has current investment in bonds, mutual funds, and quoted equity of Rs. 40.20 crores as on March 31, 2022, as against Rs. 33.99 crore as on March 31, 2021. Furthermore, ASCL is utilizing around 64% of its working capital borrowings in the past 12 months (from August 2021 – August 2022). Its current ratio stood at 1.94x as on March 31, 2022, 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.

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, 2022
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
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
Criteria on Consolidation

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. 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.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	30-06-22 (UA)
Total operating income (TOI)	2,544.85	4,423.07	1265.00
PBILDT	63.39	132.34	32.00
PAT	64.04	94.04	22.00
Overall gearing (times)	0.45	0.53	NA
Interest coverage (times)	4.35	7.28	NA

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 facilities rated for this company: Please refer Annexure 4

Annexure-1: Details of Facilities

Name of the Facility	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		-	-	-	900.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the 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	LT/ST*	900.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Oct-21)	1)CARE A-; Negative / CARE A2+ (30-Dec-20) 2)CARE A-; Negative / CARE A2+ (30-Apr-20)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)

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

Name of Facility	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 facilities rated for this Company

Sr. No.	Name of facility	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 Ratings Ltd. 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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