MBMG Diamonds Private Limited

October 10, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	100.00 (Enhanced from 40.00)	CARE A; Stable / CARE A2+ (Single A; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**100.00 (₹ One Hundred Crore Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

Mahendra Brothers Group (MBG) comprises of five companies, namely Mahendra Brothers Exports Private Limited (MBEPL), MBMG Diamonds Private Limited (MBMG), Uni Design Elite Jewellery Private Limited (UDEJPL), Uni Design Jewellery (India) Private Limited (UDJIPL), and Uni Design Jewellery Private Limited (UDJPL). The ratings to the Long Term and Short-Term bank facilities of MBG factors in significant improvement in Total Operating Income (TOI) during FY22 (April 01, 2021, to March 31, 2022) and 5MFY23 (refers to April 01, 2022, to August 31, 2022) led by faster than expected recovery in demand from major diamond consuming countries and strong domestic demand. The ratings continue to factor in long standing experience of the promoters in CPD (Cut and Polished Diamonds) business of more than five decades, global presence across major diamond & jewellery markets through contractual arrangements, and sourcing arrangements with leading miners. The rating also factors in the Improvement in debt coverage indicators.

The aforesaid rating strengths are, however, tempered by 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, fragmented nature of 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 the liquidity profile of MBG remain to be seen.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations over Rs.10,000 crore with PBILDT margins over 6.5% on sustained basis
- Significant Improvement in capital structure and debt protection indicators while maintaining EBIDTA margin of 7% pa on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing beyond unity on sustained basis.
- Continuing geo-political issues impacting the sector resulting in decline in TOI below 6,000 crore and PBILDT margins below 3.5% on a combined basis.

Detailed description of the key rating drivers

Key rating strengths

Established track record in the CPD Industry:

Mahendra Brothers Group is owned by the Parikh family who have been in the CPD business for more than five decades. MBEPL has been a sight holder since 1969 and has also established strong relationship with clients worldwide. The group has diversified into jewellery manufacturing through its affiliates which cater to both domestic and international markets. MBEPL employs skilled workers for the assortment and grading of diamonds while the processing of rough diamonds is outsourced. Diamonds less than 10 cents are outsourced to smaller manufacturers while bigger diamonds of better clarity are processed by group entity namely Parmes Diamond Exports Private Limited and by exclusive sub-contractor Kanksha Manufacturing LLP.

Global presence across major gems and jewellery markets along with domestic sales through contractual arrangements:

MBG is integrated across the entire gems & jewellery value-chain from sourcing and processing of rough diamonds to jewellery manufacturing and marketing. MBG has long standing relationships with a diversified clientele base in Hong Kong, US, Belgium

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

and UAE. MBEPL has the requisite expertise to cut and process a range of rough diamond across various shapes, sizes, colour and clarity. MBMG procures diamonds from group companies and has entered into an agreement with Malabar Gold and Diamonds (MGD) wherein it supplies the diamond studded jewellery to be sold in MGD stores under the brand name 'MINE'. Manufacturing of diamond studded jewellery is housed under the Uni-Design companies. The jewellery manufacturing units of the group source polished diamonds of various sizes and shapes primarily from MBEPL. UDEJPL undertakes contract-based manufacturing of customised high-end fashion jewellery for clients in Europe, USA and Hong Kong. UDJPL manufactures mass appeal jewellery to be supplied to USA, Europe and Australia whereas UDJIPL caters to the Indian market only.

Contract based sourcing of quality rough diamonds from the world's leading diamond mining companies:

MBEPL purchases rough diamonds directly from De Beers and Canada based Dominion Diamonds. 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.

Owing to the group's association with the diamond mining companies, 55% of its rough diamond supplies were sourced from the miners directly (FY21: 22%). Apart from De Beers and other global miners, MBEPL also procures 45% from Secondary market. MBG's Jewellery division sources the polished diamonds from MBEPL. During FY22, around Rs.98crore and Rs.547crore of the polished diamonds sourced by UDJIPL and UDJPL respectively were from MBEPL.

Strong growth in TOI in FY22 and 5MFY23 with stable profitability margins:

MBG reported robust growth in its TOI of Rs.8,189 crore in FY22, witnessing a growth of 82% on a YoY basis. The improvement in TOI was mainly attributable to strong demand both domestic as well as exports demand. PBILDT Margin on a combined basis continued to remain largely stable at 6.59% in FY22 as against 6.99%. As a result of continued strong demand from major diamond consuming segment as well as demand for jewellery segment in the domestic market the margins are expected to remain about 6-7% in the medium term.

During FY22, MBG's jewellery sales have grown by 74.41% from Rs.2346.92crore to Rs.4093.26crore and the CPD sales grown by 82.90% from Rs.2555.88crore to Rs.4674.64crore. UDEJPL has achieved 53.23% growth in revenues to Rs.265.96crore in FY22 from Rs.173.57crore in FY21. UDJPL and UDJIPL reported 84.51% and 48.63% growth in revenues, respectively. MBMG Diamonds Private Limited, which is a tie-up of MBG with Malabar Gold and Diamonds, has also reported 74.50% growth in sales during FY22 to Rs.2041.02crore.

Moderation in capital structure and improvement in debt coverage indicators:

Overall gearing remained at 0.78 times as on March 21, 2022 against 0.77 times as on March 31, 2021, on account of increase in net worth due to accretion of profits as a result of stable profitability led by strong recovery in demand. Furthermore, led by strong growth in TOI and stable profitability, the coverage indicators also witnessed as a strong improvement in FY22. Total Debt/GCA improved to 3.59x as on March 31, 2022 while the interest coverage ratios improved to 4.83x in FY22.

Key rating weaknesses

Inherent working capital-intensive nature of business:

MBG's operations are working capital intensive as rough diamond procurement is generally on advance payment or cash basis. The processing of diamonds takes 3-4 months and average credit period is 1.5 months so that overall 3-4 months working capital cycle is common across CPD players. MBEPL's receivables days was around 67 days and inventory days stood at 80 days in FY22 as against 82 days and 114 days in FY21, this was due to strong sales witnessed during FY22, 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, 2022. The creditor days was 61 days in FY22 as against 62 days in FY21. MBEPL's operating cycle improved to 86 days in FY22 from 133 days in FY21; due to decrease in inventory days and adequate receivables. The average utilization of working capital limits by MBEPL over last 12 months ending in September 2021 stood at 79%.

The operating cycle of MBG improved to 86 days as on March 31, 2022 as compared to 133 days as on March 31, 2021 on the back of improved inventory days and collection days as a result of faster collection owing to strong demand.

Profits exposed to volatility in the prices of rough and polished diamonds:

MBG is dependent on imports to meet its requirement of rough diamonds. The profitability margins of MBG 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 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: Adequate

Adequate liquidity characterized by sufficient cushion with gross cash accruals of Rs.341.17crore, and adequate cash balance of Rs.214.88 crore as on March 31, 2022 (combined for all companies) against scheduled repayment of Rs.8.45 crore during FY23. MBG's bank limits were utilized to the extent of ~79% for last 12 months ended June 30, 2022. It reported a comfortable current ratio of 1.41x as on March 31, 2022.
Average utilization for the past 06 months ending August 2022 for MBEPL was 79% respectively and for UDEJPL, UDJIPL and UDJPL was 35%, 45% and 64%, respectively.

Analytical approach: For arriving at the rating, CARE has combined the business and financial risk profile of Mahendra Brothers Exports Private Limited and its group companies namely:

- MBMG Diamonds Private Limited
- Uni Design Elite Jewellery Private Limited
- Uni Design Jewellery (India) Private Limited and
- Uni-Design Jewellery Private Limited

Combined approach was adopted as all the entities in the group are closely held with significant ownership and control resting with family members of key promoters. Entities in the group are engaged in similar line of business and historically, group has demonstrated its intension to support the group entities resulting in fungibility of cash flows. Uni Design Jewellery Holdings LLP (90% held by MBEPL) owns majority stake in Uni Design companies namely- UDEJPL and UDJIPL.
Combined financials have been arrived by excluding intergroup transactions for FY22 and similarly expected intergroup transactions have been excluded from projections.

Applicable criteria

Policy on default recognition
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
Policy on Withdrawal of Ratings

About the company

The Mahendra Brothers Group (MBG) comprises of five entities namely Mahendra Brothers Exports Private Limited (MBEPL), MBMG Diamonds Private Limited (MBMG), Uni-Design Jewellery Private Limited (UDJPL), Uni-Design Jewellery (India) Private Limited (UDJIPL) and Uni-Design Elite Jewellery Private Limited (UDEJPL). The group is engaged in processing and export of cut and polished diamonds, trading of polished and rough diamonds and manufacturing of diamond studded jewellery.

Brief Financials (₹ crore) - Combined	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	4497.10	8188.99	NA
PBILDT	314.36	539.98	NA
PAT	150.23	318.29	NA
Overall gearing (times)	0.77	0.79	NA
Interest coverage (times)	3.81	4.83	NA

A: Audited; NA: Not available

About MBMG

MBMG Diamonds Private Limited (MBMG) commenced operations in 2009 as supplier of diamond-studded jewellery to Malabar Gold and Diamonds (MGD). The manufacturing facilities of MBMG are located in Calicut, Kerala, in close proximity to MGD group manufacturing facilities. MBMG procures diamonds from group companies such as Uni-Design Jewellery India Private Limited and from other non-group entities and supplies diamond studded jewellery to MGD. MBMG and MGD have entered into an agreement wherein MBMG supplies the diamond studded jewellery to be sold in MGD stores under the brand name 'MINE'.

Brief Financials (₹ crore) - MBEPL	March 31, 2021 (A)	March 31, 2022 (A)	4MFY23
Total operating income	1169.67	2041.02	899.97
PBILDT	51.49	93.19	NA
PAT	38.81	67.13	NA
Overall gearing (times)	0.37	0.00	NA
Interest coverage (times)	24.64	21.42	NA

A: Audited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable

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

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

Complexity level of various facilities rated for this company: 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-CC/PC/Bill Discounting		-	-	-	100.00	CARE A; Stable / CARE A2+

Annexure-2: Rating history for the 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-CC/PC/Bill Discounting	LT/ST*	100.00	CARE A; Stable / CARE A2+	-	1)CARE A; Stable / CARE A2+ (03-Nov-21)	1)CARE A-; Negative / CARE A2 (23-Mar-21) 2)CARE A-; Negative / CARE A2 (08-Jan-21) 3)CARE A-; Negative / CARE A2 (14-May-20)	1)CARE A-; Stable / CARE A2 (23-Mar-20)

*Long term/Short term.

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

Name of the Facility	Detailed Explanation
A. Financial covenants	

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

Sr. No.	Name of Facility	Complexity Level
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	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 us:

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