Asian Star Company Limited
September 07th 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	980.00 (Enhanced from 900.00)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings to the Long-term/Short-term bank facilities of Asian Star Company Limited (ASCL) factors in 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 a steady supply of rough diamonds and its established relationship with customers. The rating also takes into account the stable scale of operations and profitability margins during FY23 (Audited, refers to period April 01 to March 31).

The above rating strengths are 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 the inherent risk and fragmented nature of cut and polished diamond (CPD) industry. The rating strengths are further constrained by decline in Total Operating Income (TOI) of ASCL witnessed during Q1FY24 (refers to period April 01 to June 30), led by high inflationary pressures across major diamond-consuming nations impacting the overall demand for natural diamonds.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors:

- Substantial improvement in scale of operations led by improved volumes along with improvement in PBILDT margin over 5% on a sustained basis.
- Improvement in collection days, and receivable days resulting in improved working capital cycle below 100 days on sustained basis.

Negative factors:

- Deterioration in overall gearing beyond 0.75x on sustained basis
- Continued overall sluggishness in demand for natural diamonds impacting the sector, resulting in decline of TOI below 2,500 crore and decline in PBILDT margins on a sustained basis.
- Deterioration in liquidity resulting in high working capital utilization.

Analytical approach: Consolidated

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, 2023
1.	Asian Star DMCC	Wholly owned subsidiary	This subsidiary is engaged in trading of rough diamonds, and it also procures rough diamonds for the group.	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.	-

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company will sustain its operational performance over the medium term on the back of an expected improvement in H2FY24 (refers to the period from October 1 to March 31) in the diamond industry, the resourceful promoters and experienced management.

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

Detailed description of the key rating drivers
Key Strengths

Experienced promoters
Mr. Arvind 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 Chairman of the Committee of Administration of the G&J Export Promotion Council (GJEPC). He is assisted by his son Mr. Rahil Shah and 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 a diversified business profile with its reach in both domestic and international markets. ASCL procures rough diamonds at group level and processes it into cut and polished diamonds in the manufacturing facility in Surat, Gujarat. The polished diamonds are then sold across the globe. During FY23, the revenue from the export market was around 68% as compared to 73% in FY22. As ASCL caters to a diversified market, it has its revenue reach to major export destinations i.e., Middle East (UAE), Europe and USA, accounting for 53% of the total revenue in FY23 as against 57% in FY22. 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 FY23, the sales from top 10 customers accounted for about 34% as against 35% in FY22, while the sales to related party was at approximately 9% of the top 10 customers in FY23. ASCL plans to leverage its widespread distribution network for capturing jewellery sales of countries through its marketing arm. Unlike other large CPD players, 33.93% of ASCL group sales come from the domestic business, and its share has increased in the last two fiscal years.

Stable Revenue and Profitability during FY23
ASCL is focused on small size diamonds (less than 1 carat) which are used in studded jewelry. Despite facing challenges such as high inflationary pressures in major diamond-consuming nations, ASCL maintained stable sales growth. The company reported a TOI of Rs. 4,476.72 crore in FY23, slightly higher than the previous year's Rs. 4,423.07 crore. Furthermore, the company's turnover remains subdued, recording net sales of Rs. 924.00 crore in Q1FY24, compared to Rs. 1078.00 crore in Q1FY23. Looking ahead, CARE anticipates this moderated demand for polished diamonds to recover during the upcoming holiday season. Hence, Hence, the resurgence in demand in the forthcoming holiday season assumes paramount significance. The diamond industry being seasonal in nature, a 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 3.34% in FY23 as against 2.99%. However, the margin continues to remain thin.

Comfortable capital structure and debt coverage indicators
As on March 31, 2023, total debt stood at Rs. 628.21 crore as against Rs 691.19 crores. The same comprised of working Capital borrowings of Rs 497.49 crores and unsecured loan from promoters Rs.130.73 crore as against the tangible net worth of Rs.1432.78 crore as on March 31, 2023. Over the years, with accretion of profits to its net-worth coupled with nil long-term debt and the capital structure of the company remained comfortable which stood at 0.44x as on March 31, 2023 (as compared to 0.53 in FY22). As on March 31, 2023, debt to equity has also remained stable at 0.04x (PY 0.04x). Further, the debt coverage indicators remained stable as on March 31, 2023. The total debt/GCA remained stable at 6.80x as at the end of FY23 (as compared to 6.61x in FY22) and the PBILDT interest coverage ratio also was at 6.55x in FY23 as against PY 7.28x.

Sourcing of rough diamonds from world's leading diamond mining companies
ASCL has rough supply contracts/arrangements 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 Arctic Canadian Diamond Company (a Canada-based rough diamond mining company).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. The majority of purchases are made at the group level from miners as compared to secondary market. During FY23, the purchases from miners accounted for 62% of total purchases and purchases from related party (Asian Star DMCC, a Dubai based subsidiary) accounted for 11% of total purchases.

Key Weaknesses
Working capital intensive nature of business
The industry in which ASCL operates continues to remain working capital intensive due to the 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.
The working capital cycle slightly deteriorated to 110 days as on March 31, 2023, vis-à-vis 96 days as on March 31, 2022, mainly on account of stable scale. 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 increased to 56 days in FY23 (PY:44 days). The average collection days have also deteriorated to 84 days in FY23 (PY: 75 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's profitability margins continue to remain thin in the range of 3% to 4%. 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 impacts 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. After witnessing robust growth in Cut and Polished Diamond (CPD) exports from India during FY22 at $24.43 billion and stable performance in FY23 at $22.04 billion, high inflationary pressures across major diamond-consuming nations continue to weigh on CPD exports from India. Consequently, CPD exports, in value terms, witnessed a decline of 32% on a YoY basis in 4MFY24. Anticipating the trajectory ahead, we envision this moderated demand for CPD to recover in the forthcoming holiday season. On an annual basis, we expect the overall CPD exports to decline about 10%-15% to $19 billion to $20 billion.

Liquidity analysis: Adequate
On a consolidated basis ASCL had an unencumbered cash & cash equivalent (including current assets) of Rs. 182.47 crore as on March 31, 2023, as against Rs. 120.11 crore as on March 31, 2022, providing comfortable liquidity buffer to the company. ASCL on a standalone basis had a liquid investment of Rs. 36.93 crores as on March 31, 2023, as against Rs. 33.99 crore as on March 31, 2022. Furthermore, on an average the maximum utilization of its working capital bank limits for the past 12 months (from July 2022 – July 2023)was at 62%. Its current ratio stood at 2.20x as on March 31, 2023, which shows that there is sufficient room in the current asset book to meet the current liabilities. The company doesn't have any long-term loan on the books as on March 31, 2023. Promoters continue to provide liquidity support through unsecured loans.

Analytical approach: 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

About the company and industry
Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

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)	31-03-2022 (A)	31-03-2023 (A)	Q1FY24 (UA)
Total operating income (TOI)	4,423.07	4476.72	924.00
PBILDT	132.34	149.72	30.00
PAT	94.04	82.99	24.00
Overall gearing (times)	0.53	44	NA
Interest coverage (times)	7.28	6.55	NA

A: Audited; UA: Unaudited Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

Annexure-1: Details of 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		-	-	-	980.00	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 2023-2024	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
1	Fund-based-LT/ST	LT/ST*	980.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (10-Oct-22)	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)

*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 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 us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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