

## Popatlal Nathalal Shah

July 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.73 (Reduced from 10.89)	CARE BB+; Stable	Revised from CARE BBB-; Negative
Long Term / Short Term Bank Facilities	80.00	CARE BB+; Stable / CARE A4+	Revised from CARE BBB-; Negative / CARE A3
Long Term / Short Term Bank Facilities	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.

\* The said facilities have been withdrawn on receipt of written confirmation from the lender that the said facilities have been repaid and the same stand closed.

### Rationale & Key rating drivers

The revision in the ratings assigned to the bank facilities of Popatlal Nathalal Shah (PNS) is on the back of its negative sensitivities getting triggered with consistent decline in scale of operations in FY23 and FY24 (FY refers to the period from April 1 to March 31) on the back of subdued demand from major consuming nations and elongation in operating cycle owing to high inventory holding period.

Further, the ratings continue to remain constrained on account of PNS's moderate debt coverage indicators, stretched liquidity, susceptibility of its profitability to volatility in the prices of rough diamonds as well as exchange rate fluctuations along with its presence in highly competitive, working capital intensive and fragmented cut and polished diamond (CPD) industry.

The ratings, however, continue to derive comfort from vast experience of PNS's promoters in the CPD industry, established sourcing and distribution network with long-term business relationship with clientele in key export markets, moderate profitability and comfortable capital structure.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive Factors

- Sustained improvement in the scale of operations with TOI of over Rs.200 crore while maintaining its comfortable PBILDT margin
- Effective management of its working capital requirements leading to operating cycle of less than 200 days on a sustained basis

#### Negative Factors

- Decline in TOI below Rs.80 crore and PBILDT margins falling below 4.50% on a sustained basis
- Further elongation in the operating cycle
- Withdrawal of partner's capital or any major borrowings leading to overall gearing above 2x

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the firm shall continue to benefit from long track record of operations and extensive experience of its promoters in the CPD industry.

### Detailed description of the key rating drivers:

#### Key Weaknesses

##### Consistent decline in scale of operations albeit stable profitability

The total operating income (TOI) of the firm consistently declined from Rs. 257.46 crore in FY22 to Rs. 149.50 crore in FY23 and further declined to Rs. 110.22 crore in FY24 (UA). This was on account of continuing subdued demand from the Hong Kong market, disrupted market condition due to Russia-Ukraine war, inflationary pressure and high rough diamond prices. Moreover, increasing penetration of Lab Grown Diamond (LGD), continues to impact the demand for natural diamonds.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

However, the firm's PBILDT margin remained stable over the past few years in the range of 5-7% with increase in price of rough diamond being offset by higher sales realization from polished diamonds. During FY24, PNS reported PBILDT margin of 6.42% in FY24 as compared to 6.93% in FY23.

### **Moderate financial risk profile**

While PNS had a comfortable capital structure as on FY24 end, debt coverage indicators remained moderate due to lower profitability. Furthermore, PNS had a moderate net worth base of Rs. 56.33 crore as on FY24 end (PY: Rs. 55.16 crore). On account of lower utilisation of working capital facilities, overall gearing of PNS improved to 0.66 times as on March 31, 2024 as compared to 0.94x as on March 31, 2023. However, the debt coverage indicators continued to remain moderate with PBILDT interest coverage and total debt to GCA of 1.81x (PY: 1.90x) and 15.80x (PY: 16.43x) as on March 31, 2024 respectively on account of decline in overall scale of operations and profitability.

### **Intensely competitive nature of CPD industry and susceptibility of profitability to volatile prices and exchange rate fluctuations**

The CPD industry is highly fragmented with the presence of numerous unorganized players in addition to few large integrated jewellery manufacturers leading to a high level of competition. Moreover, the prices of rough diamonds and CPD are market driven and the entities in the midstream segment have a limited bargaining power on either end of the value chain. Moreover, the profitability of the firm is also susceptible to exchange rate fluctuations on inventories and timing difference between import payments and export realizations. However, the benefit of natural hedge, availing fund-based working capital facility in foreign currency and hedging of balance exposure through forward contracts mitigates the risk to an extent. Further, PNS has an adequate hedging policy in place.

### **Key Strengths**

#### **Experienced partners along with well-established operational track record in the CPD industry**

PNS was incorporated as a proprietorship concern in 1956 by the late Mr. Popatlal Nathalal Shah. Later it was reconstituted as a partnership firm in 1990. Currently, Mr. Ajay Shah (son of Mr. Popatlal Shah) along with his wife Mrs. Priti Shah and his son Mr. Nirav Ajay Shah manage the overall operations of the firm. Partners have long track record and are engaged with the diamond business for over six and a half decades. Additionally, the partners are assisted by a team of well-qualified professionals.

#### **Established sourcing and distribution network**

PNS has established a strong sourcing network wherein it procures its requirement of rough diamonds from secondary market and have long relationship with key suppliers. However, there are no long-term sourcing contracts in place. PNS has established long-term relationships with the clientele in key diamond markets viz. Hong Kong, USA, Belgium, UAE and China, with Hongkong contributing to around 60-80% in export sales in last three years ended March 31, 2024. Nevertheless, the focus has also remained on domestic market which contributed almost 50% of PNS's total sales during FY24 as compared to 34% in FY23.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### **Liquidity: Stretched**

Liquidity of PNS remains stretched marked by elongated operating cycle and high repayment obligation vis-à-vis cash accrual generation. However, the same is offset by moderate utilisation of its fund based limits at 35% during the last 12 months ended May, 2024, providing cushion in terms of unutilized working capital limits. The operating cycle of the company elongated to 269 days in FY24 (FY23: 242 days) on the back of higher inventory holding days and early settlement of creditors during FY24. In line with its operating cycle, its GCA days also remained elongated at 267 days in FY24 (FY23: 240 days).

The firm had free cash and bank balance amounting to Rs. 0.29 crore (PY: Rs. 0.93 crore) as on March 31, 2024 excluding lien marked FDR of Rs. 5.87 crore (PY: 7.87 crore). Further, the cash flow from operation (CFO) declined but remained positive at Rs. 13.68 crore during FY24 as compared to Rs.39.13 crore during FY23, which supported its debt repayment in FY24.

## Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Withdrawal Policy](#)
[Cut and Polished Diamonds](#)
[Short Term Instruments](#)

## About the firm and industry

### Industry Classification

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

Set up as a proprietorship concern in 1956 by the late Mr Popatlal Nathalal Shah, PNS was reconstituted as a partnership firm in 1990. Currently, Mr Ajay Shah, son of late Mr Popatlal Nathalal Shah, along with his wife Mrs Priti Shah and his son Mr Nirav Shah manages the overall operation of the firm. PNS is engaged in the processing of rough diamonds and sale of CPD. It processes rough diamonds ranging from 0.50 cents to 15 carats in D to J colour range belonging to IF (Internally Flawless) to SI2 (Slight Inclusion) quality. Its manufacturing facility is located at Surat and it mainly exports to Hong Kong, Belgium, UAE, USA and China.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	149.50	110.22
PBILDT	10.36	7.08
PAT	2.41	1.71
Overall gearing (times)	0.94	0.66
Interest coverage (times)	1.90	1.81

A: Audited; P: Provisional; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** CRISIL Ratings had reviewed ratings of PNS under "Issuer Not Cooperating" category vide its press release dated August 09, 2023.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure 1: Details of Instrument/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-Term Loan		-	-	Feb 2026	6.73	CARE BB+; Stable
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing		-	-	-	80.00	CARE BB+; Stable / CARE A4+
Fund-based - LT/ ST-Working Capital Limits		-	-	-	0.00	Withdrawn

**Annexure 2: Rating History of last three years**

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	LT/ST	80.00	CARE BB+; Stable / CARE A4+	-	1)CARE BBB-; Negative / CARE A3 (07-Jun-23)	1)CARE BBB-; Stable / CARE A3 (12-Sep-22) 2)CARE BBB-; Stable / CARE A3 (02-Aug-22)	1)CARE BBB-; Stable / CARE A3 (08-Jul-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	1)CARE BBB-; Negative / CARE A3 (07-Jun-23)	1)CARE BBB-; Stable / CARE A3 (12-Sep-22) 2)CARE BBB-; Stable / CARE A3 (02-Aug-22)	1)CARE BBB-; Stable / CARE A3 (08-Jul-21)
3	Fund-based - LT-Term Loan	LT	6.73	CARE BB+; Stable	-	1)CARE BBB-; Negative (07-Jun-23)	1)CARE BBB-; Stable (12-Sep-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure -3: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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