

## VGrown Tech Private Limited (Revised)

October 10, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	458.00	CARE BBB-; Stable	Reaffirmed

Details of facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation to the rating for long-term bank facilities of VGrown Tech Private Limited (VGTPL), continue to draw strength from experienced and resourceful promoters and one of the large installed capacities of the entity in the lab-grown diamonds (LGD) space. The rating also factors in timely completion of greenfield project in March 2024 and achievement of sizable operations in LGD space.

However, rating strengths are partially offset by VGTPL's elongated working capital cycle, high customer concentration risk and moderate level of competition in LGD space. The rating is also constrained due to declining trend of LGD prices in the last two years and consequent decline in export of polished LGD from India in FY24 (FY refers to April 01 to March 31) and 5MFY25 although there was volume growth with growing acceptance of LGDs.

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

#### Positive factors

- Stabilising operations and achieving projected revenues and profitability on sustainable basis.
- Significantly improving in TOI and healthy margins as envisaged.

#### Negative factors

- Non-achievability of projected revenue and profitability for FY25.
- Further deteriorating working capital cycle from existing level of FY24.

### Analytical approach: Standalone

### Outlook: Stable

CARE Ratings believes that the company will continue to benefit from its experienced and resourceful promoters and one of the highest installed capacities to produce rough LGDs in India.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced and Resourceful Promoters

The company is promoted by Kalpesh Vallabhbhai Patel and Varunkumar Babubhai Lakhani. Kalpesh Vallabhbhai Patel is Vallabhbhai Patel's son, who is the chairman of one of the leading gems and jewellery company in India. Kalpesh completed his bachelor's in commerce and has experience of over 15 years in the diamond industry. Varunkumar Babubhai Lakhani, has also completed his bachelor's in commerce and has experience of over 10 years in the diamond industry. Resourcefulness of promoters can be abstracted by subordinated unsecured promoters' loans of ₹274 crore as on March 31, 2024, resulting in a comfortable gearing of 0.93x as on March 31, 2024. A major part of capex was completed using equity/unsecured loans from promoters, demonstrating their resourcefulness.

##### Company to benefit given its large capacity in LGD space

VGTPL has completed installation of 1,916 chemical vapor deposition (CVD) machines and commenced full operations in FY25, starting from April 2024. These machines have the capacity to produce ~2.87 million rough LGDs annually. Therefore, with the existing set-up, VGTPL remains one of the leading companies in the Indian LGD sector.

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

### **Timely completion of capex, with achievement of sizeable operations despite nascent stage**

VGTPPL was founded on April 21, 2022, and the operations started from FY24 onwards. VGTPPL installed machineries in three phases. Initially, the production started from April 2023 and sales commenced from June 2023. From April 2024, the company is operating with all 1916 CVD machines. Around 1296 machines have been funded from unsecured loans from promoters and creditors for capital goods. The company is planning to avail additional term loan towards reimbursement of capex to be utilised for payment of creditors of capital goods of ~₹200 crore and setting up a renewable capacity to reduce its power cost.

The company being at a nascent stage point towards risks and uncertainties. However, comfort can be drawn from the promoter's long presence in the diamond industry and sizeable operations in FY24 with company reporting a TOI of ₹714.81 crore and ₹391.04 in Q1FY25 (UA).

### **Key weaknesses**

#### **Extended working capital cycle resulting from elongated receivables and inventory levels**

Post commencement of operations, the company's working capital intensity remains high owing to high inventory and receivable levels. Inventory levels stood high at ₹337.79 crore as on March 31, 2024, considering initial stage of operations and time taken for cutting and polishing diamonds. Receivables also remained high at ₹415.34 crore as on March 31, 2024, which were funded through customer advances and promoters unsecured loans. Going forward, with stabilisation of operations and growth in scale, inventory level is expected to moderate and managing its working capital would be crucial for cash flow perspective.

#### **Customer concentration risk**

Over 90% of total sales in FY24 and Q1FY25 has been contributed by top three customers Kiran Diam LLP, ECO Grow FZC and Vega Grow DMCC, reflecting high customer concentration risk. These entities are traders/jewellery manufacturers catering to export markets mainly the USA.

#### **Moderate level of competition and declining trend of LGD prices putting pressure on profitability of LGD players**

The LGD industry, still in its evolving stage, faces less competition compared to the natural diamond segment. However, the industry has high entry barriers due to significant capital investment requirements and need for established industry contacts. The LGD segment is also exposed to the risk of rapidly evolving technological advancements. Currently, two primary technologies are used to produce rough LGDs: chemical vapor deposition (CVD) and high-pressure high temperature (HPHT). Developed in India, the CVD technology has been adopted globally due to the superior clarity and colour of rough diamonds produced, while Chinese manufacturers continue to rely on HPHT technology.

In the last few years ended FY24, India witnessed a rapid capacity addition in LGD space. It is estimated to that India has ~7,000 plus machines each having a capacity of 180 to 230 carats per month per machine. Polished LGD exports from India reported a decline in value terms in FY24 over FY23, despite significant volume growth (supported by increased acceptance of LGD in developed market such as the USA, especially in engagement ring segment). The decline was primarily due to sharp decline in LGD prices, which fell from UD\$350-400 USD per carat to US\$150-200 per carat on average basis in FY24, which further declined to ~UD\$125-150 per carat in 5MFY25, putting pressure on profitability of LGD players.

Entities in the LGD space are focusing on maintaining healthy profitability margins by reducing costs primarily by venturing into renewable energy space.

### **Liquidity: Adequate**

Liquidity of company is adequate marked by expected healthy cash accruals of ₹236.29 crore against lower debt repayment obligation of ₹47.30 crore for FY25. Gross cash accruals (GCA) as on March 31, 2024, was at ₹177.29 crore, against which debt repayment obligation was ₹19.74 crore. Cash and liquid balance stood at ₹39.05 crore as on March 31, 2024. Cash flow from operations stood positive at ₹249.40 crore for FY24. The company has a sanctioned ₹25 crore cash credit, for which, average of maximum utilisation stood low at 54.11% for 12-months ending July 2024.

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

### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cur and Polished Diamonds](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

VTPL was incorporated on April 21, 2022. VTPL is a private limited company for manufacturing rough LGD and sale of polished LGD. The company has installed machines using CVD technology for producing LGD rough diamonds. The company's registered office is in Mota Varachha, Surat, Gujarat. The company is promoted by Kalpesh Vallabhbbhai Patel and Varunkumar Babubhai Lakhani, who have experience of over a decade in the diamond industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	0.00	714.81	391.04
PBILDT	2.28	218.74	NA
PAT	-3.70	101.12	NA
Overall gearing (times)	15.12	0.93	NA
Interest coverage (times)	0.87	6.26	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

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

**Lender details:** Annexure-5

### 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30-09-2028*	433.00	CARE BBB-; Stable

\*Term loan includes proposed term loan as well for which maturity date is not applicable.

**Annexure-2: Rating history for 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-Term Loan	LT	433.00	CARE BBB-; Stable	1)CARE BBB-; Stable (01-Apr-24)	1)CARE BBB-; Stable (04-Apr-23)	-	-
2	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB-; Stable	1)CARE BBB-; Stable (01-Apr-24)	1)CARE BBB-; Stable (04-Apr-23)	-	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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