Asian Star Company Limited
October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short-term bank facilities	980.00	CARE A-; Negative / CARE A2+	Reaffirmed; Outlook revised from Stable

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Reaffirmation of Ratings to bank facilities of Asian Star Company Limited (ASCL) factors in experienced promoters, the company's diversified business with established international marketing setup through associates, adequate liquidity, comfortable capital structure and moderate debt coverage indicators. Ratings further factor in its established relationship with customers and its association with the world's leading diamond mining companies which ensures a steady supply of rough diamonds.

The above rating strengths are tempered by decline in the scale of operations with continued thin profitability margins in FY24 (FY refers to April 01 to March 31) and Q1FY25 driven by demand slowdown and price decline witnessed in the CPD (Cut and Polished Diamonds) industry which is expected to continue in near term. Rating strengths are further constrained by the company's working capital intensive operations, susceptibility of profitability to volatility in prices of rough diamonds and fragmented cut and polished diamond (CPD) industry.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors:

- Substantially improving scale of operations led by improved volumes and improving profit before interest, lease rentals, depreciation and taxes (PBILDT) margin over 5% on a sustained basis.
- Improving collection days, and receivable days resulting in improved working capital cycle below 100 days on sustained basis.

Negative factors:

- Deteriorating overall gearing beyond 0.75x and total debt (TD) to PBILDT above 7x on a 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.
- Deteriorating liquidity resulting in high working capital utilization.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of ASCL, while arriving at ratings, owing to operational and financial linkages between these entities. Details of subsidiaries and associate company which have been consolidated with ASCL in Annexure 6.

Outlook: Negative

Revision in outlook from 'stable' to 'negative' reflects CARE Ratings Limited's (CARE Ratings') expectation of continued pressure on the scale and the company's profitability owing to lacklustre demand key diamond consuming markets. The outlook may be revised to stable in case of higher than anticipated growth in scale and improvement in profitability translating in improved GCA and debt coverage indicators.

Detailed description of key rating drivers

Key Strengths

Experienced promoters

Arvind Tarachand Shah, Chairman of Asian Star Company Limited has over 58 years of experience in G&J industry. Vipul Shah, MD and CEO 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 Committee of Administration of G&J Export Promotion Council (GJEPC). He is assisted by his son Rahil Shah and a team of well-qualified and experienced directors, who are actively involved in functions of business.

Diversified business profile with international marketing setup and established relationship with customers

ASCL has a diversified business profile with its reach in domestic and international markets. ASCL procures rough diamonds at group level and processes it in cut and polished diamonds in the manufacturing facility in Surat, Gujarat. Polished diamonds are then sold across the globe. In FY24, revenue from export market was ~66%, similar to that of FY23. As ASCL caters a diversified market, it has its revenue reach to major export destinations, Middle East (UAE), Europe and USA, accounting for 53% of the total revenue in FY24 as against 51% in FY23. Besides its subsidiaries in USA, Hong Kong and UAE, ASCL has 18

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

marketing arms across Asia, Europe and USA. These marketing arms have enabled ASCL to establish its customer base across the globe. In FY24, customer concentration risk reduced evident from top 10 customers accounted for ~32% as against 31% in FY23. While the sales to related party was at ~9% of the top 10 customers in FY24 (PY: 11%). ASCL plans to leverage its widespread distribution network for capturing jewellery sales of countries through its marketing arm. Unlike other large CPD players, 34% of ASCL group sales come from the domestic business, and its share has remained stable in the last two fiscal years.

Comfortable leverage and debt coverage indicators despite witnessed moderation in FY24

ASCL's capital structure continued to remain comfortable marked by overall gearing of 0.49x as on March 31, 2024, as compared to 0.44x as on March 31, 2023. Consequent to increase in debt levels and marginal in PBILDT in absolute terms, the total debt/PBILDT also marginally moderated to 6.22x at the end of FY24 (as compared to 4.20x in FY23). Similarly, PBILDT to interest coverage indicator has also moderated from 6.55x in FY23 to 2.99x in FY24.

Sourcing of rough diamonds from world's leading diamond mining companies

ASCL has rough supply contracts/arrangements with major mining companies De Beers Group (DTC sight-holder since 1993) and Arctic Canadian Diamond Company (a Canada-based rough diamond mining company). Access to 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 purchases are made at the group level from miners as compared to secondary market. In FY24, purchases from miners accounted for 32% of total purchases and purchases from related party (Asian Star DMCC, a Dubai based subsidiary) accounted for 9% of total purchases.

Key Weaknesses

Moderation in scale of operations however profitability remained stable in FY24 and Q1FY25

ASCL focuses on small-sized diamonds (less than 1 carat), which are primarily used in studded jewelry. The company reported a significant decline in revenue to ₹3,523.30 crore in FY24 from ₹4,478.25 crore in FY23. Reduction in TOI by 25% is primarily considering continued sluggish demand across CPD industry, as reflected by total CPD exports from India had declined by 28% in FY24 over FY23 and recached at lowest level in last five years. Despite decline in revenue, ASCL's profitability remained stable and remained thin marked by PBILDT margins of 3.38% (3.34% in FY23) in FY24, and profit after tax (PAT) margins increasing to 2.20% in FY24 from 1.85% in FY23. Furthermore, despite the company's turnover remained subdued in Q1FY25, with net sales of ₹766.00 crore compared to ₹994.09 crore in Q1FY24, PBILDT margin improved and stood at 4.56%, up from 4.21% in Q1FY24. Marginal improvement was largely due to the company's focus on smaller-sized diamonds (below 30 cents), which experienced less price erosion compared to larger diamonds. Continued sluggish demand and moderation in prices is expected to weigh on the company's performance in the near term and would remain a key credit monitorable.

Working capital intensive business

Industry in which ASCL operates continues to remain working capital intensive due to the inherent 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 operations remain working capital intensive. Working capital cycle deteriorated to 159 days as on March 31, 2024, against 110 days as on March 31, 2023, mainly considering elongated collection period. ASCL deals in smaller sized diamonds where demand for Gemmological Institute of America (GIA) certification is much lesser (so time is not lost on the certification process). Inventory days increased to 90 days in FY24 (PY:56 days) which mainly accounts for polished diamonds. Average collection days have also deteriorated to 109 days in FY23 (PY: 84 days).

Profits exposed to volatility in 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. ASCL's profitability margins are susceptible to the price of rough diamonds and CPD which are market driven and volatile. However, given the direct sourcing arrangement with miners, volatility risk reduces to certain extent. Manufacturers in the midstream segment of CPD industry have limited bargaining power against diamond mining companies and jewellery retailers have larger part of profitability in value chain. Increase or decrease in price of rough diamond impacts CPD manufacturers in the industry equally and so increase in price of rough diamond is pass on to the buyer of polished diamond.

Sluggish demand scenario and fragmented CPD

India is the world's largest Centre for cutting and polishing of diamonds accounting for over 90 to 95% of the total world's polished diamond consumption. However, CPD industry in India is highly fragmented with numerous unorganised players, in addition to large integrated G&J manufacturers, leading to a high level of competition. As a result of global inflationary trends, adverse macro-economic environment and opening of experienced-based spending has led to overall decline in demand for natural diamonds, which is discretionary. Moreover, increasing penetration of lab grown diamond (LGD) continue to further impact the demand for natural diamonds. Consequently, total CPD exports from India declined to 27.58% to US$15.97 billion (PY: US$22.04 billion) in FY24. The demand-supply imbalance has pressured the pricing of polished diamonds, leading to a price correction estimated at 5-10% for diamonds below 0.3 carats, 20-30% for 0.3-3 carat diamonds, and 10-20% for diamonds above three carats in CY23. This imbalance and price correction have adversely affected the export value. High inventory levels at the start of FY24 and subsequent fall in prices of CPD impacted the scale and profit margins of CPD entities, resulting in higher than anticipated decline in TOI, profitability and GCA.

Liquidity analysis: Adequate
On a consolidated basis ASCL has unencumbered cash & cash equivalent (including current investments) of ₹173.40 crore as on March 31, 2024, as against ₹175.82 crore as on March 31, 2023, providing comfortable liquidity buffer to the company. Furthermore, ASCL has utilised ~59% of its working capital borrowings in the past 12 months (from July 2023 – June 2024). Its current ratio stood at 2.07x as on March 31, 2024, which shows that there is sufficient room in the current asset book to meet the current liabilities and cash flows from operations (CFO) from operating activities is negative 74.38 crore on the back of increased inventory holding. The company doesn't have long-term loan in the books as on March 31, 2024.
Promoters have extended liquidity support through unsecured loans of ₹119.53 crore, as on March 31, 2024, with the provision that the loan is repayable on demand.

Applicable Criteria
Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry
Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Gems, jewellery and watches

ASCL was set up as a partnership firm in 1971 by the Shah and Kothari families. In 1990, the company's management control 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 G&J value chain from procurement of rough diamonds, diamond cutting and polishing to jewellery manufacturing and distribution directly to retailers across the globe.

Brief Financials (₹crore) – Consolidated	31-03-2023 (A)	31-03-2024 (A)	Q1FY25 (UA)
Total operating income (TOI)	4476.72	3523.76	766.87
PBILDT	149.72	119.24	34.98
PAT	82.99	77.58	17.48
Overall gearing (times)	44	0.49	NA
Interest coverage (times)	6.55	2.99	NA

A: Audited; UA: Unaudited Note: these are latest available financial results

Brief Financials (₹crore) – Standalone	31-03-2023 (A)	31-03-2024 (A)	Q1FY25 (UA)
Total operating income (TOI)	3427.43	2748.46	766.87
PBILDT	117.83	130.85	34.98
PAT	57.31	65.24	17.48
Overall gearing (times)	0.67	0.69	NA
Interest coverage (times)	4.22	3.59	NA

A: Audited; UA: Unaudited Note: these are latest available financial results

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Annexure-2
Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of instruments rated for this company: 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 and Rating Outlook
Fund-based-LT/ST		-	-	-	980.00	CARE A-; Negative / 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 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	LT/ST	980.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Sep-23)	1)CARE A-; Stable / CARE A2+ (10-Oct-22)	1)CARE A-; Stable / CARE A2+ (07-Oct-21)

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

Annexure 3: Detailed explanation of covenants of rated facilities: Not applicable
Annexure 4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Asian Star DMCC	Full	This subsidiary is engaged in trading rough diamonds, and it also procures rough diamonds for the group.
2	Asian Star Company Ltd. (USA)	Full	This subsidiary is the marketing arm of ASCL for selling its polished diamonds in US market
3	Asian Star Trading (Hong Kong) Ltd.	Full	This subsidiary is the marketing arm of ASCL for selling its polished diamonds in Hong Kong market
4	Shah Manufacturers	Full	It processes the rough and polished diamonds for ASCL.

Note on complexity levels of rated instrument: CARE Ratings Ltd. 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:

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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