Asian Star Company Limited
February 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities (Fund Based)	1,055 (reduced from 1,154)	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)**	**Reaffirmed**
Total	**1,055 (Rupees One Thousand and Fifty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Asian Star Company Limited (ASCL) factors in well-established promoters, the company's strong business profile, established international marketing setup through associates, improving capital structure and debt coverage indicators, its association with the world's leading diamond mining companies which ensures steady supply of rough diamonds, and its established relationship with the customers.

These rating strengths are, however, tempered by decline in revenue in FY19 and thin profitability margins and working capital intensive operations of the company, susceptibility of the profitability to volatility in the prices of rough diamonds and foreign exchange fluctuations. The rating also factors in the intense competition, fragmented nature of cut and polished diamond (CPD) industry, and the impact of corona virus on export sales to HK/ China.

Rating Sensitivities

Positive factors

- *Improvement in the PBILDT margins to 6.00% on sustained basis*
- *Working capital cycle to be less than 90 days on sustained basis*

Key negatives

- *Any further investment in non-core business of subsidiary/associate company*
- *Current ratio less than 1.20 times*
- *Overall gearing of more than unity*
- *Impact of coronavirus on the export sales to Hong Kong/China.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Dinesh Tarachand Shah, Chairman of Asian Star Co. Ltd. has over 41 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 ex-chairman of the Committee of Administration of the G&J Export Promotion Council (GJEPC). He is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

Strong business profile with international marketing setup

ASCL has sales exposure in both domestic and international markets. Rough diamonds are procured at group level and are cut and polished in the manufacturing facility of ASCL in Surat, Gujarat. The company has big cutting and polishing unit in Surat covering 1,00,000 sq. ft. and jewelry manufacturing units at Seepz Mumbai and Hosur, spread over 50,000 sq. ft. The facility at Hosur specifically caters to Titan Private Limited which is also the single largest customer for ASCL. ASCL provides employment to around 1,000 employees in its Surat Plant. ASCL is focused on small size diamonds (less

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

than 1 carat) which are used in studded jewelry. These are then sold to the various countries across the globe. The total operating income declined by 6.76% i.e. to Rs.3,647crore in FY19 as compared to Rs.3,911crore in FY18. This decrease in the total sales was on account of subdued industry scenario in FY19. The revenue from export market was around 69.83% in FY19 as compared to 72.80% in FY18.

ASCL caters to diversified customers in the domestic as well as overseas market. Hong Kong, UAE and USA remain the major export destinations accounting for 47% of the total revenues in FY19 as against 52% in FY18. The company also has its presence across countries like USA, China, Japan and European countries. However, their share continued to remain low.

Established relationship with customers

ASCL has a diversified customer base with exposure to jewelry manufacturers and retailers. The company focuses on selling to individual retail stores in US, and Asia rather than selling to large retail chains as the margins are better. In its diamond division, ASCL has the requisite expertise to cut and process a range of polished diamonds in various shapes, sizes, colours and purity. ASCL's jewelry division has a vast product offering in its bulk produce jewelry segment as well as a high value and handcrafted exclusive couture jewelry segment. Titan Company Limited is one of the largest customer of ASCL.

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

ASCL has rough supply contracts with all the major mining companies i.e. DTC sight-holder contract of the De Beers Group since 1993 and Alrosa Alliance Member of Russian based rough diamond mining company Alrosa Company Ltd. It is also a part of Select Diamantiaries List of the Rio Tinto group as well as a Dominion Preferred Purchaser of Dominion Diamond Corporation, a Canada-based rough diamond mining company. Majority of purchases are made at the group level from DTC and miners as compared to secondary market. Asian Star DMCC, a Dubai based group associate, act as one of the supplier for rough diamonds to ASCL. Apart from procuring rough diamonds, ASCL also procures polished diamonds for meeting specific requirements of customers.

Continued Improvement in Capital structure and debt coverage indicators

Overall gearing ratio improved to 0.64 times as on March 31, 2019 (as compared to 0.86 times as on March 31, 2018) on account of reduction in working capital borrowing as compared to FY18 and increase in networth due to accretion of profits. The company had total debt of Rs.690.31 crore as on March 31, 2019 out of which Rs.138.15 crore was loan from promoters (Rs.49.58crore was long term loan and Rs.88.67crore was short term). The Net Working Capital as percentage of Total current assets stood at 44% as on March 31, 2019 vs 37% as on March 31, 2018. Interest coverage ratios improved to 6.34x as on March 31, 2019 vs 5.25x as on March 31, 2018 as a result of improvement in PBILDT.

Key Rating Weaknesses

Decline in revenue in FY19 along with thin profitability margins

Total operating income by 6.76%, from Rs.3911.39 crore in FY18 to Rs.3647.00 crore in FY19. During FY19, ASCL on a standalone basis contributed 67% to consolidated revenues as compared to 70% in FY18. ASCL on a standalone basis reported a decline of 12.79% on a y-o-y basis in total operating income, from Rs.2819.29 crore in FY18 to Rs.2458.60 crore in FY19. The decline is attributed to the slowdown in exports to HK/ China on account of HK protests, and US- China Trade war. The recent onset of Corona virus in China is expected to have a negative impact of export sales in Q4 FY20 and Q1FY21.

PBILDT margin improved from 4.67% in FY2018 to 5.17% in FY2019, due to 1) Increasing contribution from jewelry business, and 2) ASCL used its substantial cash reserves for opportunistic trading in polished/ rough diamonds.

Thin profits exposed to volatility in the prices of rough and polished diamonds

ASCL is dependent on imports to meet its requirement of rough diamonds which contribute 65% of total diamond purchase, with 99% of total rough diamond purchase being imported. The profitability margins of ASCL are susceptible to the price of rough diamonds and C&P which are market driven and volatile in nature. 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 who earn 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. However, in the weak market scenario where the demand for the

CPD is low due to weak customer sentiment, than the miners soften their price on rough diamond as what is happening in the current market scenario.

Susceptibility to foreign exchange rates fluctuation

The company earns 70% of its revenue from exports in FY19 (as compared to 73% in FY18) and is subject to foreign exchange fluctuations. As ASCL enjoys natural hedge on most of its foreign exchange exposure, as it earned Rs.1,558.20 crore in FY19 (Rs.1,576.01 crore in FY18) from exports and spent Rs.1,082.63 crore (Rs.1080.69 crore in FY18) for import of raw materials. Despite hedging contracts, commodity price and foreign exchange fluctuation are moderate risks to the profitability of the company. Foreign exchange gain of ASCL was Rs.61.06 crore during FY19 vs Rs.207.94 crore in FY18 which is part of purchase/sales operation of the Company. The FX risk position is monitored by the Treasury desk and hedged using the Forward cover limits available with banks.

Intense competition and fragmented nature of the CPD industry

Indian CPD Industry accounts for every 9 out 10 polished diamonds, manufactured every year. The industry has matured over the last three decades and top CPD manufacturers enjoy direct access to miners, latest technology, and market reports. Increased competition amongst the CPD manufacturers has shrunk operating margins over the last decade.

The rough miners continue to enjoy the oligopolistic status with much bigger balance sheet. Large CPD manufacturers are totally dependent on miners for supply of large amount of rough diamonds, to run their large operations, processing several lakh carats every year. Since no large diamond mines have been discovered in the last few years, no substantial softening of roughs is expected in coming years.

The outbreak of the coronavirus in January 2020 is likely to impact overall exports of the Indian CPD industry. Hong Kong, which is a major export destination and business hub for the Indian diamond industry, has already declared closure of business units for about a month with the possibility of cancellation of the Hong Kong jewellery show scheduled in March 2020, if the situation does not improve. Considering the facts that more than 30% of the total CPD exports from India is to Hong Kong, the impact of epidemic on overall exports to Hong Kong as well as its impact on the credit profile of the entities with a higher concentration to Hong Kong remains crucial. However, Hong Kong contribution to ASCL's total revenue is around 14%-15%. Due to the outbreak of coronavirus the topline of the company will be impacted maximum by 1%-2%.

Liquidity: Comfortable

ASCL has unencumbered cash & cash equivalent of Rs.148.65 crore as on March 31, 2019 further providing the cushion for the working capital utilization. ASCL has current investment of Rs.26.04 crore in bonds, mutual funds and quoted equity as on March 31, 2019 as compared to Rs.24.71 crore as on March 31, 2018. Furthermore, ASCL is utilizing around 54% of its working capital borrowings in the past 12 months (from November 2018 – October 2019). Current ratio stood at 1.79x as on March 31, 2019, which shows that there is sufficient room in the current asset book to meet the current liabilities. Promoters have provided substantial liquidity support through unsecured loans – of Rs.138.15 crore from promoters (Rs.88.67 crore in the form of long-term and Rs.49.48 crore in the form of short-term) as on March 31, 2019.

Analytical approach: : CARE has analysed the consolidated financials of ASCL owing to the operational and financial linkages between these entities. The details of the entities which have been consolidated with ASCL in the analysis are as under:

Sr. No.	Name of entity	Relationship with ASCL	Operational Linkages	% of ownership as on March 31, 2019
1.	Asian Star DMCC	Wholly owned subsidiary	ASCL purchase rough diamond through Asian Star DMCC	100
2.	Asian Star Company Ltd. (USA)	Wholly owned subsidiary	This subsidiary is the marketing arm of ASCL for selling it 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 it polished	100

Sr. No.	Name of entity	Relationship with ASCL	Operational Linkages	% of ownership as on March 31, 2019
			diamonds in Hong Kong market	
4.	Shah Manufacturers	Partnership Firm	It processes the rough and polished diamonds for ASCL.	-

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Short-term Instruments]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for manufacturing companies]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Rating Methodology: Cut & Polished Diamond (CPD) Industry]

About the Company

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. In 1996, ASCL was listed on the BSE. ASCL is a recognized Four Star Trading House. 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. The company has a strong global presence with 20 marketing arms spread across key diamond hubs located in Asia, Europe and America. ASCL's production facilities are located at Mumbai, Surat (Gujarat) and Hosur (Tamil Nadu).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3911.38	3647.00
PBILDT	181.83	187.02
PAT	101.84	115.76
Overall gearing (times)	0.86	0.64
Interest coverage (times)	5.25	6.34

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	1055.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-LT/ST	LT/ST	1055.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Feb-19)	1)CARE A-; Stable / CARE A2+ (05-Dec-17)	1)CARE A- / CARE A2+ (07-Sep-16)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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