Asian Star Company Limited

April 30, 2020

Ratings

Facilities	Amount (Rs. crore)@	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities (Fund Based)	1,055	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Rating reaffirmed and outlook revised from Stable**
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 which will further decline in revenue and profitability of ASCL in FY20 and FY21 due to the impact of pandemic COVID-19. The rating is further tempered by 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 and fragmented nature of cut and polished diamond (CPD) industry and negative impact of pandemic COVID-19 on CPD industry.

CARE takes cognizance of the company applying for moratorium on various working capital facilities with its consortium as a COVID relief measure (as permitted by the Reserve Bank of India). It has applied for ad hoc working capital limits from its lenders. The company, however, continues to pay interest on working capital facilities.

Key Rating Sensitivities

Key Positives

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 pandemic coronavirus on the total revenue and profitability of the company

Outlook: Negative

The outlook of the company has been revised to negative from stable due to temporary shutdown of processing facilities, disruption in operations across key global diamond markets and an expectation of lower demand of discretionary products in the near to medium term. The COVID-19 related disruptions are expected to impact the overall credit profile of the company (especially debt coverage indicators and working capital turnover) in the near to medium term. Moreover, extension of lockdown beyond the anticipated period, may exert pressure on the company's revenues and profitability and is likely to cause a significant deterioration in its credit profile.

The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in sustained improvement in the company's business and financial risk profile

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

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. These are then sold to the various countries across the globe. The total operating income declined by 6.76% i.e. to Rs.3,647.00 crore in FY19 as compared to Rs.3,911.39 crore 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.

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 which is a DTC sight holder of Alrosa, procures rough diamonds from miners and secondary market, and supplies 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, 2018 (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.49.58 crore was long term loan and Rs.88.67 crore was short term).

Total Debt/ GCA and interest coverage ratios improved to 5.13x and 6.34x as on March 31, 2019 vis-à-vis 6.87x and 5.25x as on March 31, 2018 respectively as a result of improvement in GCA and PBILDT.

Key Rating Weaknesses

Decline in revenue in FY19 along with thin profitability margins

ASCL reported decrease in 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. ASCL is focused on small size diamonds (less than 1 carat) which are used in studded jewelry.

During the last two fiscals, the PBILDT margins have also improved from 4.67% in FY2018 to 5.17% in FY2019, due to 1) Increasing contribution from jewelry business, and 2) ASCL has substantial cash reserves which allows it to procure diamonds on opportunistic basis.

Major export markets for CPD are Hong Kong/China, USA and Europe, where the discretionary spend has gone down sharply due to economic slowdown triggered by COVID-19. Further there has been a disruption of logistics during to lockdown, so that no export sales have taken place during this March (no export post lockdown from March 23, 2020) and April 2020. There will be slowdown in economic activities during FY21 due to lock down and recessionary economic environment which will result in decline in TOI and profitability margins of the ASCL are also expected to contract due to higher fixed cost.

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.

Moratorium on working capital
ASCL has not availed the moratorium of interest on working capital loans from its relationship banks till date. The company has applied for a moratorium of 90 days on both the pre-shipment credit (PCFC) and post shipment credit (Export Bills). The company has also applied for ad-hoc working capital limits from its consortium banks which are capped at 10% of the total consortium limits (currently at Rs1055crore). Currently, the company had sufficient liquidity and the limits available with it.

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. ASCL earned foreign exchange gain of Rs.61.06 crore as on March 31, 2019 vs Rs.207.94 crore as on March 31, 2018. However, these are mark to market gains on the USD export receivables. On the day of export sales realisations, the USD realisation would be used to settle the outstanding USD PCFC borrowing so there will no loss/ profit to the company.

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%.

Impact of Pandemic COVID-19 on CPD industry

Unprecedented measures taken by India as well as key global markets to control the spread of the novel corona virus (COVID-19) pandemic has significantly impacted the entire diamond value chain with forced unit shutdowns. While marginal relaxations have been given by the government, the duration of lockdown related restrictions and its overall impact on the industry remains a key monitorable. CARE believes that despite these marginal relaxations to resume commercial operations, the extension of lockdown beyond the anticipated period to control the spread, may exert pressure on the company's revenues and profitability in the near to medium term.

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). Its 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 – Rs.88.67 crore loans from promoters and Rs.49.48 crore loans from related party 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 diamonds in Hong Kong market	100
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	64.08	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-; Negative / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-LT/ST	LT/ST	1055.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Feb-19)	1)CARE A-; Stable / CARE A2+ (05-Dec-17)

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Sumit Sharma
Contact no. : +91-22-6754 3679
Email ID: sumit.sharma@careratings.com

Business Development Contact
Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**