Asian Star Company Limited

December 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term / Short Term Bank Facilities	900.00 (Reduced from 1,055.00)	CARE A-; Negative / CARE A2+ (Single A Minus ; Outlook: Negative/ A Two Plus)	Reaffirmed
Total Bank Facilities	**900.00 (Rs. Nine Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating 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 FY20(A) and H1FY21(UA) and thin profitability margin; albeit, improved PBILDT margins in H1FY21 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 COVID19 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).

Key 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

Negative factors

- Any further investment in non-core business of subsidiary/associate company
- Current ratio less than 1.20 times
- Overall gearing of more than unity

Outlook: Negative

The outlook of the company continues to remain negative due to the impact of covid-19. The covid-19 related disruptions have impacted the total operating income, profitability and may impact working capital cycle in FY21. Moreover, there has been improvement in sales in YTDFY21 for the company and most of the players in the industry. However, the sustainability of pickup in demand on M-o-M basis still needs to be seen. 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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Dinesh Tarachand Shah, Chairman of Asian Star Co. Ltd. has over 57 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 Vice 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 strong business profile with diversified customer base. ASCL has its reach to both domestic and international markets. ASCL procures rough diamonds at group level and process it into cut and polished diamonds in the manufacturing facility in Surat, Gujarat. These are then sold to the various countries across the globe. As ASCL caters to diversified market, it has its revenue reach to major export destinations i.e. UAE, Europe and USA, accounted for 53% of the total revenues in FY20 as against 48% in FY19. During FY20, the revenue from export market was around 68.22% as compared to 69.83% in FY19.

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

The company also has its presence across countries like Hong Kong, China, Japan and European countries. However, their share continues to remain low.

Established relationship with customers with low customer concentration risk

ASCL handles diversified customer base due to its healthy relationship with world's leading retail brands and focus on offering technical marketing services has enabled it to create a strong presence across prime trading and consuming centres in Asia, Europe and America. The company has well established customer base due to its strategy of selling to individual retail stores in US, and Asia rather than selling to large retail chains as the margins are better.

The sales are made through various marketing arms based locally in respective geographies – 1) Local companies make it easier to handle small parcel sizes, and distribute to local customers. 2) 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. 3) ASCL's jewellery division has a vast product offering in its bulk produce jewellery segment as well as a high value and handcrafted exclusive couture jewellery segment. Further, customer concentration risk remain low given the fact that top 10 customer constitute about 37% of TOI in FY20

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

ASCL has rough diamond supply contracts with all the major mining companies i.e. De Beers Group (DTC sight-holder since 1993), Alrosa Alliance (Member of Russian based rough diamond mining company Alrosa Company Ltd.), Rio Tinto group (Select Diamantiaries status), Dominion Diamond Corporation(a Canada-based rough diamond mining company, Dominion Preferred Purchaser status). These tie-ups ensures steady supply of rough diamonds.

Majority of purchases are made at the group level from miners as compared to secondary market. Furthermore, Asian Star DMCC, a Dubai based Group associate which is an Alrosa Alliance Member, procures rough diamonds from miners and secondary market, and supplies to ASCL.

Improved capital structure and moderate debt coverage indicators

Overall gearing ratio improved to 0.57 times as on March 31, 2020 (as compared to 0.64 times as on March 31, 2019) on account of reduction in working capital borrowing as compared to FY19 led by lower sales towards latter part of FY20 and increase in net worth due to accretion of profits. The company had total debt of Rs.663.34 crore as on March 31, 2020 out of which Rs.138.38 crore was loan from promoters (Rs.48.77 crore was long term loan and Rs.89.61 crore was short term). These loans are non-interest bearing and short term loan is repayable on demand. Total Debt/ GCA and interest coverage ratios reduced to 8.30x and 5.23x as on March 31, 2020 vis-à-vis 5.13x and 6.34x as on March 31, 2019 respectively as a result of reduction in GCA and PBILDT.

Decline in revenue in FY20 along with thin profitability margins albeit, PBILDT margins improved during H1 FY21.

Outbreak of Covid-19, initially in china, disrupted the sale of diamonds from China to world market, and consequently impacted imports of polished diamonds from India.

ASCL reported decrease in total operating income by 16.36%, from Rs.3647.00 crore in FY19 to Rs.3050.39 crore in FY20. The major decline in revenue occurred in Q4FY20 due to outbreak of covid-19 pandemic. The company's majority revenue comes from export and this was severally impacted. Company also faced difficulties in domestic B2B sales due to closure of jewellery stores.

During FY20, the PBILDT margin reduced to 3.81% as compare to 5.13% in FY19 and 4.65% in FY18 due to, 1) low sales volume, and 2) unfavorable economic conditions due to outbreak of covid-19. However, PBIT margin in CPD segment continues to remain at circa 3% range due to intense competition between various CPD manufacturers. Whereas, contribution of jewellery segment to overall sales of ASCL has increased from 15% in FY19 to 20% in FY20. Further, the PBIT contribution of Jewellery segment has improved from 16% in FY19 to about 29% in FY20 exhibiting an increase of 13% on a Y-o-Y basis despite of weak market conditions.

During H1FY21, company has recorded total operating income of Rs. 661.57 crore as against Rs.1623 crore in H1FY20, showing a decline of 60% on a Y-o-Y basis due to impact of lock down. However, ASCL's sales has witnessed a gradual recovery since opening of lock down. However, the sustainability of growth in revenue as well as profitability and subsequent impact of the same on company's business and financial profile remains to be seen.

Key Rating Weaknesses

Working capital intensive operations

ASCL's operations are working capital intensive as rough diamond procurement is 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. ASCL's receivables days was around 85 days, inventory days stood at 70 days in FY20. ASCL deals in smaller sized diamonds where demand for GIA certification is much lesser (so time is not lost on the certification process), it has leaner inventory compared to the peer group of top-5 CPD players. The creditor days was 20 days in FY20 as against 22 days in FY19. ASCL's operating cycle increased to 133 days in FY20 vis-à-vis 120 days in FY19; due to increase in inventory days.

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 75% of total diamond purchase, with majority 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 have 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 of profitability to foreign exchange fluctuation
The company earns 68% of its revenue from exports in FY20 (as compared to 70% in FY19) and is subject to foreign exchange fluctuations. As ASCL has natural hedge on most of its foreign exchange exposure, as it earned Rs.1349.71 crore in FY20 (Rs.1558.20 crore in FY19) from exports and spent Rs.900.56 crore (Rs.1082.63 crore in FY19) for import of raw materials. For the balance exposure the company takes forward cover, thereby reducing forex risk to a large extent

Impact of covid-19 on CPD industry
The performance of G&J exports over last few years has remained largely on the declining trend led by economic slowdown, China US trade war, Hong Kong protest etc., further, led by outbreak of covid-19 the export of G&J was impacted in H1FY21. The coronavirus outbreak, initially in China, and thereafter to the rest of the world, has posed fresh challenges for the Indian gems and jewellery industry. The outbreak had stalled manufacturing and trading activities, cancellation of business events, deferment of committed orders, and reduced demand in the sector. Export to Hong Kong/China, the largest CPD export market for India, declined by 35.02% y-o-y to USD 3419.79 million in H1FY21, followed by decline in exports to USA by 43.55% due to subdued domestic consumer demand for diamond jewelry and the adverse impact of Covid-19, Brexit and USA-China trade war. However, the exports of G&J to UAE has witnessed the highest fall of 86.70%Nontheless, the exports of G&J from India has witnessed gradual recovery post opening up of lock down.

Impact of covid-19 on ASCL
ASCL's majority revenue is from exports and this was severally impacted since the beginning of January 2020 with disruption in the economic activities in major consumption centres of Gems and Jewellery in the world. The Company's local B2B jewellery business was also severally impacted due to closure of stores of its clients across the country.
But the sales are recovering since Q2FY21 and expected to improve better in the upcoming quarters. The company has recorded sales of Rs. 653.19 crore during H1FY21 with gradual MoM improvement witnessed post opening up of lock down.

Moratorium on working capital loans: ASCL had availed for an extension of 90 days on both the pre-shipment credit (PCFC) bills and post shipment credit (Export Bills). As on September 30, 2020, the company has repaid all the bills.

Liquidity analysis: Adequate
The company's liquidity position on a consolidated basis continues to remain adequate. The company reported a stable GCA of Rs.79.73 crore in FY20 and a cash flow from operations of Rs. 104 crore in FY20 and Rs.346 crore in H1FY21. As against this the company has no repayment obligation. Furthermore, ASCL had unencumbered cash & cash equivalent of Rs. 183.94 crore as on September 30, 2020, providing liquidity buffer to the company on a consolidated basis. ASCL also had current investment of Rs. 25.32 crore as on September 30, 2020 in bonds, mutual funds and quoted equity on a consolidated basis. While on a standalone basis, unencumbered cash and cash equivalent was at Rs.~60 crore as on September 30, 2020 and Rs.42.50 as on March 31, 2020 and a liquid investment of RS.17.90 crore as on March 31, 2020.Furthermore, ASCL is utilizing around 46% of its working capital borrowings in the past 12 months (from November 2019 – October 2020). Its current ratio stood at 2.26x as on March 31, 2020, which shows that there is sufficient room in the current asset book to meet the current liabilities. Also, the company has no major expansion plan in the near to medium term horizon.

Promoters have provided substantial liquidity support through unsecured loans from promoters - Rs.89.61 crore was the short term loan and Rs.48.77 crore was the long term loan as on March 31, 2020.

Analytical approach: CARE has considered consolidated financials of ASCL, while arriving at the ratings, owing to the operational and financial linkages between these entities. The details of the subsidiaries and associate company which have been consolidated with ASCL are as under:

Sr. No.	Name of entity	Relationship with ASCL	Operational Linkages	% of ownership as on March 31, 2020
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
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology – Cut & Polished Diamond (CPD) Industry
Rating Methodology – Manufacturing Companies
Rating Methodology: Consolidation

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 21 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). The company also has windmills in Maharashtra, Kerala and Tamil Nadu. In H1FY19, ASCL merged its subsidiary Asian Star Jewel Private Limited (ASJPL) with itself vide NCLT order dated September 03, 2018 w.e.f. April 01, 2017.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)	H1FY21(UA)
Total operating income	3647.00	3050.39	661.57
PBILDT	187.02	116.36	27.43
PAT	115.76	63.15	14.49
Overall gearing (times)	0.64	0.57	0.28
Interest coverage (times)	6.34	5.23	10.58

A: Audited; UA: Un-Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of 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	-	-	-	900.00	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	900.00	CARE A-; Negative / CARE A2+	1)CARE A-; Negative / CARE A2+ (30-Apr-20)	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)

Annexure 3: Covenants of rated facility: NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-LT/ST	Simple

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

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