Suashish Diamonds Limited

February 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	148.00 (reduced from Rs.200.00 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	**Reaffirmed**
Total Facilities	**148.00 (Rs. One Hundred and Forty Eight crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Suashish Diamonds Limited (SDL) continues to derive strength from the vast experience and resourcefulness of the promoters, SDL's established track record of more than two decades in the G&J industry and healthy profitability margins. The ratings also take into consideration comfortable capital structure and strong liquidity position. The above strengths are however, tempered down by customer concentration risk, volatility in raw material prices and presence in a highly competitive and fragmented industry.

Rating Sensitivities:

Positive Rating Sensitivities

- Sustenance of PBILDT margins in jewellery business above 15%.

Negative Rating Sensitivities

- Decline in operating profitability of the jewellery business below 10%
- Increase in overall gearing above 0.60x
- Any significant dilution of available liquidity, decline in value of its investments held, leading to deterioration in its networth.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and reputed promoters in G&J industry

SDL is engaged in manufacturing of diamond studded jewellery having presence in domestic as well as overseas market. Mr. Ashish Goenka, son of Mr. Ramesh Goenka, is the Chairman & Managing Director of SDL with an experience of over 25 years in the Gems & Jewellery (G&J) Industry. The management of the group is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

Gradual shifting of business from CPD to diamond studded jewellery market with healthy profitability margins

During FY19, the total operating income improved by 13.63% to Rs. 534.70 crore compared to Rs. 470.55 crore in FY18. Improvement in sales was primarily on account of improvement in sale of diamond studded jewellery in the US market. The company has shifted its focus on manufacturing jewellery which is relatively a better margin business than CPD or trading of diamonds. Sales of diamonds has decreased from Rs. 68.95 crore in FY18 (14.65% of total sales) to Rs.11.80 (2.2% of total sales) crore in FY19.

Comfortable leverage and debt coverage indicators

SDL's utilization of working capital facilities remained comfortable at an average of 41.92% for 12 months ended December, 2019. The overall gearing ratio was NIL for two years in FY17 & FY18. Gearing ratio deteriorated to 0.11x in FY19 due to increase in total debt (working capital borrowings) as on 31st March 2019. Thus Total Debt/GCA worsened to 1.58x in FY19 from 0.09x in FY18. PBILDT interest coverage deteriorated but remained comfortable at 16.23x in FY19 from 26.37x in FY18. TOL to Networth also remained comfortable at 0.21 in FY19 from 0.16 in FY18.

Comfortable working capital cycle

The working capital cycle of SDL though deteriorated to 34 days in FY19 compared to 11 days in FY18 is still comfortable considering working capital intensive nature of G&J business.

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

The deterioration in working capital cycle was primarily on account of decrease in creditor's payment period. During FY19 the company had a credit period of around 122 days compared to 157days in FY18.

Healthy profitability margins in jewellery business coupled with MTM gains from investments of subsidiaries
PBILDT margins are better in jewellery business compared to CPD player due to higher value addition. Furthermore, improvement in MTM gains in investments of partnership firms led to improvement in PBILDT margins from 13.63% in FY18 to 20.89% in FY19.With improved PBILDT margins and steady interest & depreciation expense, PAT margins improved from 10.82% in FY18 to 15.28% in FY19. On account of increase in PAT, Gross cash accruals improved to Rs. 89.16 crore in FY19 from Rs. 58.67 crore in FY18.

Key Rating Weaknesses
Customer concentration risk with majority revenue from group affiliates
During FY19, top ten customers accounted for 92.39% (FY18: 84.20%) of the total revenues, of which 84.71% of the revenues were towards group affiliate Suashish Jewel Inc & Suashish Jewels Canada Inc. Thus, customer concentration risk exists to a large extent.

Susceptibility to volatility in raw material prices
The profitability margins of SDL are susceptible to the prices of rough diamonds, C&P diamonds and gold which are market driven and volatile in nature. Although the volatility of raw material prices is limited for SDL by procuring gold from local banks on cash basis and backed by orders any adverse movement in raw material prices can affect the profitability of the company.

Industry Outlook
Gems & Jewellery industry in India primarily export-oriented and in the recent past it has been affected by weakening demand from main export nations, stress on working capital operations and funding constrains faced by small scale players.
Going forward, Steady demand of diamond and gold jewellery from USA is expected to support the demand for manufacturers in India. The larger integrated players with strong sourcing relationships for raw material, better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy are likely to exhibit more stable credit profiles.

Liquidity: Strong
SDL carries large amount of liquid investments. Total liquid investments of SDL are in two forms viz. liquid investments amounting to Rs. 36.00 crore as on March 31, 2019 and investments through its subsidiaries having a market value of around Rs. 1,160.47 crore as on March 31, 2019. Over the years SDL has been generating healthy operational cash flows. Furthermore, SDL doesn't have any long-term debt and total debt of SDL consists of only working capital borrowings. The average utilization of working capital limits has been comfortable at 41.89% for the past twelve months ended December 31, 2019. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. With comfortable gearing the issuer has sufficient gearing headroom, to raise additional debt.

Analytical approach: Standalone. CARE has adopted a standalone approach. CARE has also factored in investments made by SDL in its subsidiaries (partnership firms) and the value of investments (in debt and equity) made by these subsidiaries. The partnership firms considered are M.G. Investments (MGI), Mohinidevi Goenka Investments (MOGI) and Goenka Trading Company (GTC).

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Suashish Diamonds Ltd (SDL) is the flagship company of Suashish Group. Inter Gold (India) Pvt. Ltd. SDL is engaged in the manufacturing of diamond studded jewellery. The company has jewellery manufacturing facilities at Borivali and SEEPZ in Mumbai. Over a period of time, the group has expanded its operations and established subsidiaries/associates in the key Gems & Jewellery markets of USA, Hong Kong, Dubai, Shanghai, and Botswana.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	**470.55**	**534.70**
PBILDT	64.16	111.72
PAT	50.89	81.68
Overall gearing (times)	0.00	0.11
Interest coverage (times)	26.37	16.23

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 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-Long Term	-	-	-	148.00	CARE A-; Stable

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-Long Term	LT	148.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Feb-19)	1)CARE A-; Stable (26-Mar-18) 2)CARE A-; Stable (21-Apr-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
Mradul Mishra
Contact no: – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Hitesh M Avachat
Group Head Contact no: - 022-6754 3510
Group Head Email ID- hitesh.avachat@careratings.com

Relationship 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**