

## Bhansali & Co.

April 05, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Post Shipment Credit	130.00	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Bank Guarantee	20.00	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
<b>Total</b>	<b>150.00</b>	

\*Instrument details are provided in Annexure 1

### Rating action

ICRA has assigned the long-term rating at [ICRA]BB+ (pronounced ICRA double B plus) and the short-term rating at [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 130.00-crore<sup>1</sup> fund-based bank limits and Rs. 20.00-crore non-fund based facilities of Bhansali & Co. (B&C/the firm). The outlook on the long-term rating is Stable.

### Rationale

The assigned ratings favourably factor in the extensive experience of B&C's partners in cut and polished diamond (CPD) business, its longstanding relationship with customers and established sourcing arrangements with miners and DTC sight holders, which ensures uninterrupted supply of rough diamonds. The ratings also draw comfort from the firm's continued focus on producing high value fancy cuts, upper colour and processed diamonds backed by its superior technology absorption in manufacturing process which has been instrumental in sustaining satisfactory operating margin in the business.

The ratings, however, are constrained by the firm's high working capital intensive operation as indicated by its NWC/OI of 78% in FY2017 emanating from its high inventory holding and an elongated receivable cycle. Further, the ratings also remain constrained by the susceptibility of its profitability to volatility in raw material prices (roughs) as well as foreign exchange fluctuation risks in the absence of a formal hedging mechanism. It is also exposed to the stiff competition prevailing in the industry from the organised as well as unorganised players, which affects its pricing flexibility to a large extent. Further, it is exposed to high customer concentration risk with more than 50% of the revenues being derived from sales to its overseas channel partners, and any reduction in demand from the key consuming markets could impact the firm's top-line. Being a partnership concern, B&C is exposed to the risk of withdrawal of capital by partners, which could impact its capital structure.

### Outlook Stable:

ICRA believes that B&C will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if the firm is able to report a substantial growth in its revenues and profitability, along with efficient management of its working capital requirements. The outlook may be revised to Negative in case of a reduction in the firm's top-line amidst weak demand situation in the key consuming markets, or in case of a significant withdrawal of capital by the partners or if there is a further stretch in the working capital cycle, which may impact its liquidity profile.

<sup>1</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

**Extensive experience of the promoters spanning over four decades in the gems and jewellery industry** - B&C was set up in 1963 as a partnership firm involved in manufacturing and trading cut and polished diamonds of size ranging from 0.10 carat to 1 carat in all fancy shapes and sizes and colour. The firm is at present managed by Mr. Prakash Bhansali and Mr. Ashok Bhansali, who have an extensive experience of more than four decades in the gems and jewellery industry, along with the second generation of the family.

**Established supplier network with sourcing of rough diamonds from DTC players** - The firm has an established sourcing arrangement with diamond trading company (DTC) sight holders, which ensures a steady supply of roughs at competitive rates.

**Focus on high value fancy cuts, upper colour and processed diamonds which yields better margin** - B&C's product profile comprises of high value fancy cuts, upper colour and processed diamonds which has been instrumental in sustaining satisfactory operating margin in the business.

### Credit challenges

**High working capital intensive operations due to slow-moving inventory and elongated debtor realisation** - The firm extends a liberal credit period of 120 days to its overseas associate concerns, while the sourcing of rough diamonds is done from reputed DTC sight holders and miners, who extends a tight credit period of 30 days. Further, the inventory levels usually remain high due to the lengthy process involved in diamond certification process by GIA and IGI. In addition, the firm usually holds an inventory of polished diamonds till it receives favourable realisation from the market resulting in a high working capital intensity of operations with its NWC/OI at 78% in FY2017.

**High customer concentration risk** - The firm has established two companies namely Bhansali & Co (HK) Ltd., which is a wholly-owned subsidiary of B&C and Bhansali & Co. Shanghai is the wholly-owned subsidiary of Bhansali & Co (HK) Ltd. These entities are involved in marketing and distribution of polished diamonds supplied by B&C in the markets of Hong Kong, China, etc. and contribute to more than 50% of B&C's revenues. As a result, any reduction in demand from the key overseas markets is likely to impact the top-line of B&C.

**Susceptibility of margins to foreign exchange fluctuations and prices of rough diamonds** - With a major part of its sales in the form of exports, its margins are susceptible to exchange rate fluctuations. However, the risk is partially mitigated by a natural hedge through imports. B&C's operations also remain exposed to the volatility in rough diamond prices and also to the stiff competition prevailing in the industry, which affects its pricing flexibility to a large extent.

**Inherent risk associated with partnership entities like withdrawal of capital by the partners; significant withdrawal has been witnessed in the recent past** - The firm is exposed to the risk of withdrawal of capital by partner which could impact the capital structure. There have been instances of significant withdrawal of capital by the partners in the past.

**Stiff competition from both organised and unorganised players as inherent to the CPD industry** - B&C not only faces stiff competition from dominant unorganised players, but also from a few well-established, organised players who are similar in scale and size, which exerts pricing pressures.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Indian Gems & Jewellery Industry–Cut & Polished Diamonds](#)

#### About the company:

B&C was initially set up in 1963 jointly by Mr. Prakash Bhansali, Mr. Ashok Bhansali, Mr. Mahesh Bhansali, Mr. Jitendra Bhansali and Dinesh Bhansali as a partnership firm. It is involved in manufacturing cut and polished diamonds. At present, the firm is actively managed by Mr. Prakash Bhansali, Mr. Ashok Bhansali and Mr. Mahesh Bhansali along with the second generation of the family. The firm has its registered office at Mumbai and a dedicated processing facility in Mumbai and Gujarat.

In FY2017, the firm reported a net profit after tax (PAT) of Rs. 8.5 crore on an operating income (OI) of Rs. 288.3 crore, as compared to a net PAT of Rs. 9.3 crore on an OI of Rs. 237.2 crore in the previous year. In 9M FY2018, the firm has recorded revenues of Rs. 201.72 crore with a PAT of Rs. 5.7 crore.

#### Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	237.2	288.3
PAT (Rs. crore)	9.3	8.5
OPBDIT/ OI (%)	10.2%	11.0%
RoCE (%)	12.9%	12.3%
Total Debt/ TNW (times)	0.9	1.2
Total Debt/ OPBDIT (times)	4.2	4.4
Interest Coverage (times)	1.8	1.9
NWC/ OI (%)	81%	78%

#### Status of non-cooperation with previous CRA:

The company has an outstanding rating of CRISIL BB+ (Stable); Issuer not cooperating for Rs. 180 crore bank lines since January 2018.

#### Any other information: None

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015		
					May 2016		Jan 2015	Apr 2014	
1	PSC	Long Term/Short Term	130.00	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]A4+; suspended		[ICRA]A4+	[ICRA]A4
2	Bank Guarantee	Long Term/Short Term	20.00		[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]A4+; suspended		[ICRA]A4+	[ICRA]A4

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PSC	-	-	-	130.00	[ICRA]BB+ (Stable)/[ICRA]A4+
NA	Bank Guarantee	-	-	-	20.00	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: B&C

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Suprio Banerjee**

+91 22 6114 3443

[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Srinivas Menon**

+91 22 6169 3354

[srinivas.menon@icraindia.com](mailto:srinivas.menon@icraindia.com)

**Vidhi Vasa**

+91 22 6169 3352

[vidhi.vasa@icraindia.com](mailto:vidhi.vasa@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

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