

February 11, 2021

C.Dinesh & Company Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term and Short-term, Fund-based Limits	75.00	75.00	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Total	75.00	75.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of C.Dinesh & Company Private Limited (CDCPL) continues to take into account the extensive experience of the promoters in the gems and jewellery industry and the company's diversified client base.

The ratings, however, remain constrained by the company's high working capital intensive nature of operations due to elevated inventory levels. Consequently, the company's reliance on creditors for meeting its working capital requirements has remained high as evident from TOL/TNW of 4.57 times as on March 31, 2020. High inventory levels also expose the profitability to fluctuations in rough and polished diamond prices. The ratings are also constrained by the vulnerability of the company's profitability to volatility in foreign exchange fluctuations; although natural hedging mitigates the risk to an extent. The operations also remain vulnerable to the overall demand conditions in the key export markets, amid intense competition in the fragmented cut and polished diamond (CPD) industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters spanning over four decades in the CPD industry - CDCPL was established in 1976 as a partnership concern to manufacture CPDs. It was converted into a private limited company later in 2007. The promoters have over four decades of experience, which has enabled the company to establish strong relationships with its customers and suppliers.

Diversified clientele - CDCPL has a well-diversified customer base, with a fair mix of traders and jewellery manufacturers. Like most Indian CPD manufacturers, the company generates most of its sales from the Hong Kong market. The revenue share of its top 10 customers stood at 57% in FY2020 (56% in FY2019). The company's diverse customer base mitigates client concentration risk to an extent.

Credit challenges

High TOL/TNW ratio of 4.57 times as on March 31, 2020 - Even though the total debt has seen a decreasing trend in the last four years, the capital structure continues to be leveraged with the TOL/TNW ratio at 4.57 times as on March 31, 2020 (increased from 4.12 times as on March 31, 2019) due to high reliance on creditors to support the funding gap. The average creditors in FY2020 have remained high and increased to Rs. 198.86 crore as on March 31, 2020 (from Rs. 133.64 crore as on March 31, 2019) due to high purchases during the last two months. However, ICRA notes that the average creditors in the third quarter of the current fiscal have reduced, standing at Rs. 87.16 crore as on December 31, 2020.

High inventory level resulting in high working capital intensity, exposing profitability to fluctuations in rough and polished diamond prices - The inventory holding has remained high over the last three years owing to the increased share of manufacturing activity to total revenues. The working capital intensity (as depicted by NWC/OI) stood at 24% in FY2020 (26% in FY2019) due to high inventory (of Rs. 274.28 crore) as on March 31, 2020. The inventory continued to stay high in the current

fiscal with an average monthly inventory ~Rs. 232 crore in the nine-month period ending December 31, 2020. Due to the high inventory, the operations also remain exposed to volatility in diamond prices.

Modest profitability inherent to the CPD industry owing to its low value addition nature and high competitive intensity - The profitability continues to remain modest due to the inherently low value addition in the nature of the CPD industry and intense competitive pressure. The operating profit declined to Rs. 12.25 crore in FY2020 over Rs. 16.30 crore in FY2019 due to high net foreign exchange loss and higher raw material cost, while the operating income (OI) remained at same levels in both the years. The operating profit margin (OPM) declined to 2.56% in FY2020 from 3.42% in FY2019. Consequently, the net profit margin also declined to 0.73% in FY2020 over 1.09% in FY2019. The profit margins also remain exposed to intense competition in the industry, which affects its pricing flexibility to a large extent. However, its established presence in the diamond industry and its varied product offerings resulted in healthy business relationships with its customers as well as suppliers.

Revenues and profitability susceptible to adverse fluctuations in foreign exchange rates; risks partially mitigated by natural hedge and forward contracts - The company's revenues are primarily derived from export sales, exposing its operations to the vagaries of the foreign currency market. However, since the exports are backed by an equivalent amount of imports on most occasions, it enjoys a natural hedge to a large extent. Additionally, the company hedges its foreign currency exposures through forward contracts. ICRA notes that the company registered a net foreign exchange loss of Rs. 10.77 crore in FY2020, which increased from Rs. 8.50 crore in FY2019.

Liquidity position: Adequate

CDCPL's liquidity profile has remained **adequate** with no long-term loans on its books and absence of any capex plans. Further, the utilisation of the working capital stood moderate at 65% during the 12-month period ended December 2019. ICRA notes that CDCPL has a buffer of Rs. 10 crore in its undrawn working capital facilities, which provides comfort to an extent.

Rating sensitivities

Positive factors – ICRA could upgrade CDCPL's ratings if the company demonstrates healthy growth in revenue coupled with higher profits on a sustained basis and improvement in working capital management due to faster turnaround of inventory along with timely collection of receivables. The interest coverage ratio¹ should also be more than 3.50 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if there is any moderation in the company's revenues, or a weakening of the working capital cycle (due to stretch in receivables or build-up of inventory) impacting the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Gems & Jewellery Industry-Cut & Polished Diamonds
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

CDCPL was established as a partnership firm in 1976, before changing into a private limited company in 2007. CDCPL processes and exports polished diamonds of various sizes and shapes, ranging from 30 cents to five carats. CDCPL's registered office is in Mumbai (Maharashtra), and its manufacturing facility is in Surat (Gujarat).

CDCPL recorded a net profit of Rs. 3.50 crore on an OI of Rs. 477.76 crore in FY2020.

¹ Interest coverage ratio = Operating profit before depreciation, interest, tax and amortization (OPBDITA)/ Interest charges

Key financial indicators (Audited)

CDCPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	476.23	477.76
PAT (Rs. crore)	5.21	3.50
OPBDITA/OI (%)	3.42%	2.56%
PAT/OI (%)	1.09%	0.73%
Total Outside Liabilities/Tangible Net Worth (times)	4.12	4.57
Total Debt/OPBDITA (times)	4.97	5.48
Interest Coverage (times)	2.33	2.27

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					February 11, 2021	February 18, 2020	January 7, 2019	December 29, 2017	
1	Fund based limits	Long-term and Short-term	75.00	-	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	

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 [click here](#)

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	Pre-shipment and Post-shipment Limits	-	-	-	75.00	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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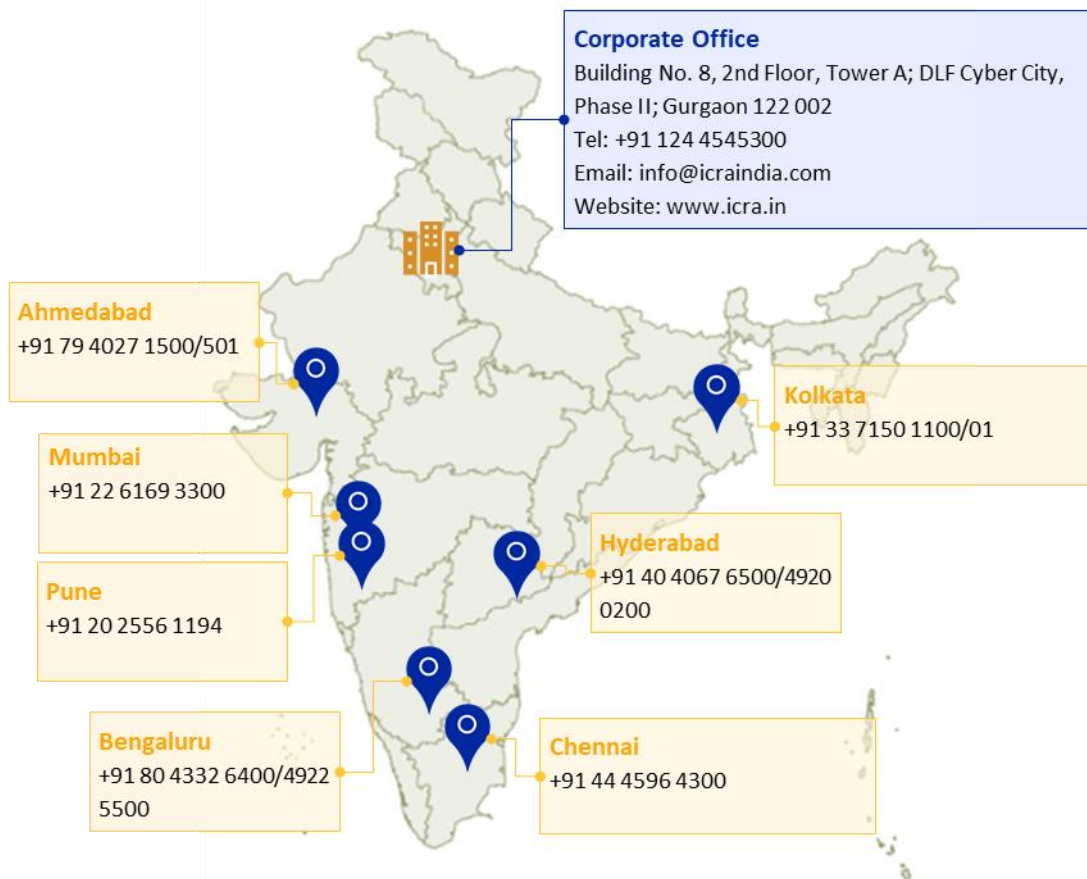


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