January 05, 2023

HVK International Private Limited: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, fund based, term loan	9.0	9.0	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long term/short term, fund based, working capital limits	251.0	251.0	[ICRA]BBB+ (Stable)/[ICRA] A2; upgraded from [ICRA]BBB (Stable)/[ICRA] A3+
Short term, non-fund-based, others	5.0	5.0	[ICRA] A2; upgraded from [ICRA] A3+
Total	**265.0**	**265.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the sustained improvement in the financial risk profile of HVK International Private Limited (HVK) in FY2022, which is expected to sustain in FY2023. The cut and polished diamond (CPD) industry witnessed a healthy demand for polished diamonds in FY2022, supported by strong retail offtake from the key consuming markets. HVK reported revenues of Rs. 1,680.6 crore in FY2022 with an improvement in the operating profit margin (OPM) to 5.2%. Despite the inflationary pressure in FY2023, demand for HVK's products, including small carat diamonds, has remained healthy in YTD FY2023, enabling a healthy growth in revenues and profitability of the company in FY2023. The company has reported revenues worth Rs. 1,150 crore (at a consolidated level) till September 30, 2022. This coupled with prudent working capital management and limited capital expenditure plans will limit HVK's dependence on debt, leading to improved debt coverage indicators. The ratings also favourably factor in the company's sight holder status with De Beers, Alrosa Inc. among others as well as its established relationships with other suppliers, which lends it with a competitive advantage. HVK, through its dominant presence in the diamond segment and experienced management, has an established and diversified customer base.

The ratings, however, remain constrained by HVK's working capital intensive nature of operations on account of its high receivable and inventory holding period. The company's operating profit margins (OPM) also remain thin, given the limited value addition. The company also remains exposed to adverse fluctuations in rough diamond prices and stiff competition from the unorganised as well as organised players. HVK's revenues and profitability also remain susceptible to the foreign exchange (forex) fluctuation risk due to the company's export-dominated revenue profile, though a natural hedge by the import of rough diamonds and hedging via forward contracts mitigate the risk to a large extent.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that HVK will continue to benefit from the extensive experience of the promoters in the CPD industry and healthy demand momentum from the key export markets.

Key rating drivers and their description

Credit strengths

Experienced management with a long track record in the industry; diversified clientele – HVK is a reasonably large-sized player in the Indian CPD industry with consolidated revenues of Rs. 1,680.6 crore in FY2022 and involved in manufacturing and exporting of polished diamonds. The company's large scale of operations can be attributed to around four decades of promoters' experience in the CPD industry and established relationships with its customers over the years. HVK has a moderately diversified customer base with the top-10 customers accounting for 50-60% of the total sales every fiscal.

Sightholder status with globally reputed miners – The CPD industry depends heavily on global miners like De Beers, Alrosa, among others, for sourcing of rough diamonds. However, due to stringent qualification requirements of the miners, only a few companies across the globe have direct access to the supplies of roughs from these miners. A steady supply of roughs at competitive rates is important for CPD manufacturers. HVK has long-term contracts for procuring fixed quantities with De Beers, Alrosa and Dominion Diamonds. HVK procures 50-55% of its rough requirements from De Beers and other primary suppliers, while the balance is procured from open market sources.

Improved financial profile – The demand for small caratage diamonds is expected to remain healthy in FY2023, which would support the company's revenue growth in the current fiscal. HVK, on a consolidated level, has reported revenues of Rs. 1,150 crore till September 30, 2022 and is likely to report Rs. 2,000 crore for the full year FY2023, reflecting a ~20% YoY growth. HVK's OPM has also remained healthy in the range of 5-6.8% during FY2022 to YTD FY2023 on account of better realisation, supported by stable demand for small-sized diamonds. This coupled with prudent working capital management and limited capital expenditure plans would limit HVK's dependence on debt, leading to improved debt coverage indicators, with the interest cover expected to sustain above 4 times, going forward.

Credit challenges

Working capital intensive nature of operations – The company's working capital intensity of operations remains high, as reflected in a net working capital vis-a-vis the operating income (NWC/OI) of 51% as on March 31, 2022. The company offers a credit period of up to 180 days to its customers, which also results in high receivable days. The inventory holding period also remained high due to stocking of rough and polished diamonds during Q4 FY2022 on account of the war between Ukraine and Russia.

Exposure to foreign currency price fluctuations –HVK's profitability is exposed to the fluctuations in the currency markets as the major portion of the company's business comes from foreign markets. However, the company enjoys some natural hedge to the extent of import of rough diamonds. Around ~25% of the company's debt (at a consolidated level) is dominated in foreign currency. The firm also hedges its receivables and uses forward contracts for the same.

Industry characterised by intense competition from organised and unorganised players – The diamond industry is fragmented, with low value addition and intense competition. HVK faces intense competition from the unorganised players as well as from a few established organised players, which limits its pricing power. However, the promoters' established presence in the industry for more than four decades and diverse product offerings helped HVK develop healthy business relationships with its customers as well as its suppliers.

Liquidity position: Adequate

HVK's liquidity position is adequate, supported by the headroom available in the form of undrawn working capital limits of ~Rs. 62 crore as on November 30, 2022. HVK's average utilisation of the working capital limit stood at 85% during the 12-month period ended on November 30, 2022. The cash flow generation is expected to improve in FY2023, aided by an increase in revenues and profitability owing to a healthy demand of small carat sized polished diamond in the export markets. HVK's debt profile, like most CPD entities, is short term in nature for meeting its working capital requirements. The company has scheduled term debt repayments of Rs. 5.5 crore in FY2023 and Rs. 4.6 crore in FY2024 from the Guaranteed Emergency Credit Loans (GECL). Besides, it does not envisage any major capex requirements over the near-to-medium term, which also provides some comfort to its liquidity.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a sustained increase in its sales and profitability going forward, resulting in strengthening of HVK's liquidity profile and debt coverage indicators. An improvement in the interest cover to over 4.5 times on a sustained basis (at the consolidated level) will be a positive trigger.

Negative factors – The ratings may be downgraded in case of a sharp decline in revenues and/or profitability of HVK, leading to a deterioration in its coverage metrics, or if its working capital cycle elongates further, adversely impacting its liquidity position. Specific credit metrics that could lead to ratings downgrade include the interest coverage remaining below 3.0 times on a sustained basis (at the consolidated level).

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems and Jewellery (Cut and Polished Diamonds) Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation	For arriving at the ratings, ICRA has considered the consolidated financials of HVK International Private Limited and its two subsidiaries as on March 31, 2022, enlisted in Annexure II.

About the company

HVK International Private Limited (HVK) manufactures and exports cut and polished diamonds (CPDs). The company was set up as a partnership firm named HVK in 1978 by Mr. Haresh Sakariya, Mr. Nagji Sakariya and Mr. Dinesh Koradia. The firm was reconstituted as a private limited company in 2011. The company is headquartered in Mumbai, Maharashtra and has its manufacturing facilities in Surat, Gujarat.

HVK Jewels DMCC is based in Dubai and is involved in trading of rough and polished diamonds. It mainly caters to the Dubai market only.

H.V. Diam BVBA is based out of Belgium and is involved in trading of rough diamonds. The company supplies rough diamonds to HVK.

Key financial indicators

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	1,715.4	1,680.6
PAT (Rs. crore)	41.8	55.8
OPBDIT/OI	4.1%	5.2%
PAT/OI	2.4%	3.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.1
Total debt/OPBDIT (times)	4.5	3.9
Interest coverage (times)	2.1	5.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					Jan 05, 2023	Nov 15, 2021	Aug 30, 2021	Sep 07, 2020	Mar 17, 2020	Nov 29, 2019
1	Fund based working capital limits	Long term/ Short term	251.0	-	[ICRA]BBB+ (Stable)/[ICRA] A2	[ICRA]BBB (Stable)/[ICRA] A3+	[ICRA]BBB (Stable)/ [ICRA] A3+	[ICRA]BBB (Negative)/ [ICRA] A3+	[ICRA]BBB@/ [ICRA] A3+@	[ICRA]BBB (Stable)/ [ICRA] A3+
2	Fund based, term loans	Long term	9.0	5.5	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
3	Non-fund-based limits	Short term	5.0	-	[ICRA] A2	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+@	[ICRA] A3+

@= placed on rating watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term, fund based, term loan	Simple
Long term/short term, fund based, working capital limits	Simple
Short term, non-fund-based, others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital facilities**	-	-	-	251.0	[ICRA]BBB+ (Stable)/[ICRA] A2
NA	**Term loans**	2020	7.6%	2023	9.0	[ICRA]BBB+ (Stable)
NA	**Non-fund-based limits**	-	-	-	5.0	[ICRA] A2

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
HVK International Private Limited	Full consolidation
HVK Diam BVBA	Full consolidation
HVK Jewels DMCC	Full consolidation

Source: *Company*

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About ICRA Limited:

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