July 04, 2023

Diamond India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – working capital limits	95.0	95.0	[ICRA] A-(Stable); reaffirmed
Total	**95.0**	**95.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation favourably factors in Diamond India Limited's (DIL / the company) low-risk business profile, its healthy financial risk profile and strong liquidity position. DIL is a nominated agency for direct import of gold and silver. The modus operandi of the business assumes no risk with DIL acting as a facilitator between the supplier and the customer. The company does not carry any inventory in the bullion business, eliminating risks related to fluctuation in metal price or foreign exchange (forex) rates. The rating also derives comfort from the experienced management of DIL.

Aided by healthy profits and risk averse nature of the bullion business, DIL's financial profile remained comfortable with total outside liabilities vis-à-vis the tangible net worth of 0.7 times (as on March 31, 2023) and an interest cover of 10.0 times. The liquidity also remained strong with free cash and liquid investments of Rs. 305.0 crore and fully unutilised bank limits of Rs. 95.0 crore as on March 31, 2023.

The rating remains constrained by the trading nature of DIL's business that keeps its profitability level low as well as its exposure to stiff competition from gold refineries, resulting in pricing pressure. ICRA also notes that the business is susceptible to uncertainties in gold trading operations owing to regulatory measures from the Government of India, as witnessed in the past. DIL's diamond business, which though accounts for ~1% of revenues, also remains exposed to supply issues from the Russia-based miner, Alrosa Group, which accounted for 74% of supplies in this division in FY2023. ICRA, however, draws comfort from the company's continued focus on better-margin export bullion business and its low-risk business model, which would adequately support the financial risk profile. ICRA also notes that the company has been exploring options for diversifying its supplier base.

The rating also factors in DIL's exposure to customer concentration risk, with 99% of revenues derived from the bullion segment, with one customer accounting for 34% (in gold) and 51% (in silver) of revenues in FY2023.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectations that DIL will continue to maintain a healthy financial risk profile and comfortable liquidity position, aided by its low-risk business model and experienced management.

Key rating drivers and their description

Credit strengths

Experienced management; status of nominated agency for direct import of gold and silver – DIL was conferred the nominated agency status vide DGFT[1] notification no. 88 dated February 26, 2009, for direct import of gold and silver. The same provides DIL with a competitive edge in terms of sourcing gold and silver and acts as an entry barrier in the business. The operations of the company are overseen by DIL's Chairman, Mr. Praveen Shankar Pandya, who along with a group of professionals have been

[1] Directorate General of Foreign Trade

associated with the industry for a long time. Mr. Pandya has vast experience and serves as the Director of several companies and has been the Chairman of the Gems & Jewellery Export Promotion Council (GJEPC) from 1996 to 2000.

Low-risk business profile – The company's business model is risk-free in nature with DIL acting as a facilitator between the customer and the supplier. The company receives payments from customers in advance. It does not hold any inventory in the bullion business and does not bear any price or forex risk.

Strong financial profile – DIL's financial profile continues to remain strong. The company's working capital cycle was supported by customer advances and consignment nature of sales (in bullion business), leading to no build-up of debtors. The working capital requirements of the company are primarily driven by its inventory holding of diamond, which constitutes 1% of the total operational size. In FY2023, DIL's revenues declined sharply to Rs. 6,266 crore (as per provisional estimates), amid supply constraints in the bullion segment and demand pressure following the increased custom duty. Nonetheless, DIL's focus on executing export orders helped it improve its profit margins in FY2023.The financial risk profile of the company continues to remain strong with total outside liabilities vis-à-vis the tangible net worth of 0.7 times (provisional estimates as on March 31, 2023) and an interest cover of 10.0 times. The liquidity also remained strong with free cash and liquid investments of Rs. 305.4 crore and fully unutilised bank limits of Rs. 95.0 crore as on March 31, 2023. Notwithstanding the current headwinds in the industry, DIL's focus on expanding business in export markets, importing gold under the India-UAE CEPA[2] agreement and low-risk business model in the precious metal business are expected to adequately support the financial profile.

Credit challenges

Customer and supplier concentration risks – DIL's bullion business faces customer concentration risk with one customer (from the domestic business) contributing 34% (gold) and 51% (silver) to revenues in FY2023, although the customer base across the bullion business of DIL is expanding with nearly 700 customers in the export markets. DIL also has a concentrated supplier base, with Standard Bank accounting for 70% of supplies in the precious metals segment following supply constraints from Russia-based VTB Bank (which has historically been DIL's largest supplier). The Alrosa Group accounted for 74% of supplies in the diamond business.

Thin profit margins, competition from refiners and banks – The company is an agency dealing in procurement and distribution of precious metals (like gold and silver) as well as rough diamonds. Owing to low value additive nature of the business and low risks assumed in the bullion business, the operating profit margin of the company is low. The company's operating profit margin improved to 0.4% in FY2023 against 0.2% in FY2022, supported by higher share of exports. The company also faces competition from refiners in the precious metal segment, which enjoys duty advantage, leading to pricing pressure and challenging demand conditions in the jewellery industry.

Gold trading operations exposed to regulatory measures by the GoI – DIL's gold trading operations remain exposed to uncertainties related to regulatory measures adopted by the GoI through DGFT and the Reserve Bank of India (RBI), as witnessed in the past, such as restrictions on gold imports and introduction and withdrawal of the 80:20 scheme. Revenue and profitability also depend on differential duties and any adverse change in these can impact the operating performance of DIL. In FY2023, the company had faced demand pressure amid increased customs duty.

Liquidity position: Strong

DIL's liquidity is strong with healthy unencumbered cash balance and liquid investments of Rs. 305 crore as on March 31, 2023, on a standalone level. There is also sufficient cushion available from DIL's fund-based limits of Rs. 95 crore from bank, which have largely remained unutilised during the 12-month period ended in March 2023. The company has no long-term repayment obligation, nor any capital expenditure (capex) plan in FY2024 and FY2025.

[2] Comprehensive Economic Partnership Agreement

Rating sensitivities

Positive factors – ICRA could upgrade DIL's rating if there is any material improvement in its operating profitability, accompanied by a sustained increase in its scale of operations. Diversification in the customer and supplier base will also be positive factors.

Negative factors – The rating may be downgraded if there are any unfavourable regulatory changes, which may affect the business risk profile of the company. Any higher-than-anticipated dividend payout or an interest coverage of less than 3.5 times on a sustained basis may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

DIL was incorporated in 2002 (commenced operations in 2006) at the behest of the Ministry of Commerce, Government of India, for directly sourcing rough diamonds from mining companies and selling it to manufacturers in India. It was designated as a nominated agency vide DGFT notification No. 88, dated February 26, 2009, for direct import of gold and silver. The company is authorised to supply gold and silver to its member companies and to jewellers in India for domestic sales and exports. It is a trade body, with leading diamond and jewellery manufacturers and exporters of India as its shareholders.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	20,433.5	24,976.5
PAT	15.1	40.5
OPBDIT/OI	0.11%	0.21%
PAT/OI	0.1%	0.2%
Total outside liabilities/Tangible net worth (times)	1.4	1.0
Total debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	4.2	11.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 04, 2023	Jul 28, 2022	Apr 30, 2021	-
1	Working Capital Fund-based facility	Long term	95.0	-	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – working capital facility	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	**Fund based working capital facility**	NA	NA	NA	95.0	[ICRA] A-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	DIL Ownership	Consolidation Approach
Precious Finserve India Limited	100.00%	Full Consolidation

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