

September 26, 2023

## Dharmanandan Diamonds Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term: Fund-based Limits	1,490.00	1,490.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
Long-term/Short-term: Unallocated Limits	135.00	135.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
<b>Total</b>	<b>1,625.00</b>	<b>1,625.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings draw comfort from the extensive experience of Dharmanandan Diamonds Private Limited's (DDPL / the company) promoters in the Indian cut and polished diamond (CPD) industry, its established relationships with customers and its status as one of the leading players in the Indian polished diamond industry. Apart from being a De Beers sight holder, the company enjoys direct supply of rough diamonds from other leading global mining companies such as Rio Tinto Diamonds and Dominion Diamond Corporation, assuring a steady supply of rough diamonds. The ratings continue to factor in DDPL's established distribution network in the key consuming markets along with the growing presence in the e-commerce and mobile-based application space, providing easy access to the global market.

The capital structure of the company is satisfactory, characterised by its large net worth base. Notwithstanding the near-term headwinds in the form of global slowdown due to inflationary pressure and an expected decline in revenues in FY2024, DDPL's dependence on debt is expected to reduce, given its controlled working capital management. Its debt coverage indicators would, however, moderate in FY2024 due to a decline in revenues and profit, though the same are expected to improve thereafter as demand conditions improve. This remains a key rating monitorable. DDPL's liquidity position is adequate, supported by undrawn fund-based limits and limited capital expenditure (capex) requirements.

The ratings, however, remain constrained by DDPL's working capital intensive nature of operations primarily on account of its high inventory holding period. DDPL remains exposed to adverse fluctuations in rough diamond prices and stiff competition from the unorganised as well as organised players. The company's profit margin stood thin at 4.9% in FY2023 owing to limited value addition and remains susceptible to the foreign exchange fluctuation risks due to its export-dominated revenue profile, though a natural hedge through import of rough diamonds and hedging via forward contracts mitigate the risk to a large extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that DDPL's credit profile would remain supported by an expected pick-up in revenues in H2 FY2024, supported by the festive season and continued controlled working capital management, which would limit its dependence on external debt.

### Key rating drivers and their description

#### Credit strengths

**One of the leading CPD exporters from India with a good market standing; well-established distribution network** – DDPL is the flagship company of the Dharmanandan Group and has established itself as one of the leading exporters of CPDs from India. The company, which was primarily involved with the processing of CPDs, has gradually forward integrated its operations into manufacturing of diamond-studded jewellery, though the contribution of the latter remains modest at present. The company is one of the largest players in the industry and generated Rs. 7,165 crore collectively from DDPL's CPD and jewellery divisions in FY2023. In the international market, DDPL has a strong distribution network in place through its associate/step-

down subsidiaries in key consuming markets of Hong Kong, the US and Belgium. The company also launched an online portal in 2009, which marked its entry into the e-commerce space. It has also developed a mobile-based instant messaging guidebook to assist clients with the diamond inventory.

**Sight holder status with De Beers and sourcing arrangement with miners ensure steady supply of roughs at competitive rates** – The CPD industry depends heavily on global miners such as De Beers, Rio Tinto, among others, for sourcing rough diamonds. However, only a few entities across the globe have direct access to the rough supply due to stringent qualification requirements of the miners. DDPL features among these top global entities and is a sight holder with De Beers. This lends competitiveness to the company's operations in the form of steady supply of quality roughs at competitive prices.

**Comfortable capital structure, large net worth base** – In FY2023, despite a demand slowdown in the industry, DDPL reported its all-time high revenue of Rs. 7,165 crore, reflecting a 6% YoY growth. This was supported by an increase in sales realisations, given the increasing focus on high-end (premium) larger-sized diamonds. Besides, its operating profit margin improved to 4.9% in FY2023 (P.Y. - 4.1%) led by benefits of operating leverage. The capital structure of the company is comfortable with a gearing of 1.2 times and total outside liabilities vis-à-vis the tangible net worth of 1.9 times as on March 31, 2023, marked by its large net worth base. The debt coverage indicators remained satisfactory in FY2023, as reflected by an interest cover of 4.0 times. Its debt coverage indicators would, however, moderate in FY2024 due to a decline in revenues and profits, though the same are expected to improve thereafter as demand conditions improve. The improvement in credit metrics in the medium term on the back of favourable demand conditions would remain a key monitorable.

### Credit challenges

**Demand headwinds being faced by the CPD industry; revenues and profitability also remain fluctuations in forex rates and rough diamond prices** – The CPD industry is facing demand headwinds due to inflationary pressure in key consuming nations. Along with unfavourable rough-polish price differential, this is expected to adversely impact the overall revenues and profitability in FY2024. In 5M FY2024, the overall CPD exports from India contracted by 31% YoY. While some improvement in CPD export volumes is expected in H2 FY2024 driven by onset of festive/holiday season, ICRA expects the industry to witness revenue contraction of 22% in FY2024. Accordingly, DDPL's revenues and profitability are expected to witness sharp contraction in FY2024. Besides, 80-90% of DDPL's revenues is denominated in foreign currency (primarily US dollar). Hence, the company is exposed to adverse fluctuations in the currency markets. However, a natural hedge resulting from the import of rough diamonds, packing credit in foreign currency and forward contracts provide protection against foreign exchange rate fluctuations to an extent.

**High working capital intensity of operations** – The company's working capital intensity of operations, as reflected in the net working capital vis-à-vis the operating income (NWC/OI), has remained high in the range of 38-62% primarily over the last three years due to its high inventory holding period. ICRA notes that DDPL's working capital intensity of operations improved to 38% as on March 31, 2023 on account of reduced inventory levels and tightening of credit period. Going forward, timely recovery of receivables and liquidation of inventory remain critical from the credit perspective and would remain a key monitorable.

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

## Liquidity position: Adequate

DDPL's liquidity position remains adequate, supported by free cash and bank balance of ~Rs. 39.1 crore and cushion available in the form of undrawn working capital limits of Rs. 277.7 crore as on July 31, 2023. Given the expectation of a decline in revenues and profitability in FY2024, the fund flow from operations is expected to moderate to Rs. 157 crore. Despite this, given the expected controlled working capital cycle, DDPL's overall reliance on debt would reduce to an extent. The company's debt profile, like most CPD and jewellery entities, is short term in nature for meeting its working capital requirements. DDPL has scheduled debt repayments of Rs. 9 crore in FY2024 and Rs. 2.5 crore in FY2025. Further, it does not envisage any major debt-funded capital expenditure (capex) requirement over the near-to-medium term. The capex is estimated at Rs. 10-20 crore per annum over the next 2-3 years.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if there is a sustained increase in the scale of operations and profitability, resulting in an improvement in DDPL's credit metrics and liquidity position. An improvement in the interest cover to over 6.0 times on a sustained basis will be a positive factor.

**Negative factors** – Pressure on DDPL's ratings could arise if there is a decline in its earnings or a stretch in the working capital cycle, resulting in a deterioration in its financial profile and/or the liquidity position. Specific credit metric that could lead to ratings downgrade includes interest cover remaining below 4.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Indian Gems &amp; Jewellery Industry – Cut &amp; Polished Diamonds</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

## About the company

DDPL is a leading Indian diamond manufacturing company headquartered in Mumbai, Maharashtra, with manufacturing facilities in Surat, Gujarat. DDPL mainly cuts and polishes quality diamonds and sells to retailers and jewellers across the globe, either directly or through its various group entities. The company manufactures diamonds in various shapes and sizes, ranging from 0.01 carat to 10 carat and above and distributes its products through its associate companies in Hong Kong, the US and Belgium. Consumers can also buy diamonds and jewellery online through DDPL's website.

## Key financial indicators (Audited)

	FY2022	FY2023
Operating income	6,740.1	7,164.8
PAT	161.9	178.2
OPBDIT/OI	4.1%	4.9%
PAT/OI	2.4%	2.5%
Total outside liabilities/Tangible net worth (times)	2.8	1.9
Total debt/OPBDIT (times)	6.5	4.9
Interest coverage (times)	5.8	4.0

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	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Sep 26, 2023	Jul 04, 2022	Jul 05, 2021	Oct 15, 2020	Sep 03, 2020	
1	Fund-based Limits	Long-term/Short-term	1490.00	-	[ICRA]A(Stable) / [ICRA]A2+	[ICRA]A(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+
2	Unallocated Limits	Long-term/Short-term	135.00	-	[ICRA]A(Stable) / [ICRA]A2+	[ICRA]A(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+	[ICRA]A-(Negative) / [ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term: Fund-based Limits	Simple
Long-term/Short-term: Unallocated Limits	Not Applicable

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 Limits	-	-	-	1,490.00	[ICRA]A(Stable)/[ICRA]A2+
NA	Unallocated Limits	-	-	-	135.00	[ICRA]A(Stable)/[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- Not applicable**

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