January 05, 2024

HVK International Private Limited: Ratings Reaffirmed

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); Reaffirmed
Long-term/Short-term - Fund based - Working capital limits	251.0	251.0	[ICRA]BBB+ (Stable)/[ICRA] A2; Reaffirmed
Short-term - Non-fund-based - Others	5.0	5.0	[ICRA] A2; Reaffirmed
Total	**265.0**	**265.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings draw comfort from the extensive experience of HVK International Private Limited's (HVK/the company) promoters in the cut and polished diamond (CPD) industry spanning over four decades with a diversified customer base. The company also benefits from its status as a sightholder of De Beers and associations with other diamond mining majors, which facilitate sourcing of rough diamonds at competitive rates and enhances its competitive position in the CPD industry.

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, HVK's revenues are expected to remain at similar levels in FY2024 supported by relatively stable demand of small caratage diamonds. However, the operating profit is expected to decline in FY2024 given the unfavourable rough-polished price differential. This, coupled with higher interest costs, would moderate the debt coverage indicators in FY2024, though these are expected to improve thereafter as the profitability levels improve on the back of better spreads between prices of rough and polished diamonds. This remains a key rating monitorable.

The ratings, however, remain constrained by HVK's highly working capital-intensive nature of operations characterised by 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 and polished diamond prices and stiff competition from the unorganised as well as organised players. HVK's revenues and profitability 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 stable demand for small caratage diamonds.

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. 2,267.1 crore in FY2023. It is 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 45-60% 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.

Steady sales despite demand headwinds faced by the CPD Industry – The CPD industry is facing headwinds due to inflationary pressure in key consuming nations. This, along with correction in polished prices, is expected to adversely impact the overall revenues of CPD players in FY2024. While the industry has witnessed 30% decline in exports in 7M FY2024, HVK has reported steady sales of Rs. 757 crore (on a standalone level) in 7M FY2024. This is primarily driven by HVK's presence in small caratage diamonds, where the extent of demand slowdown has been relatively lower and its increasing focus on the domestic markets. For FY2024, HVK is expected to report range-bound sales (vis-à-vis last year) against ICRA's expectations of revenue contraction of 22% of overall CPD exports at an industry level in FY2024.

Credit challenges

Moderation in financial profile in FY2024 due to pressure on profit margins, the same is expected to improve from FY2025 onwards – The OPM of CPD players is expected to be impacted in FY2024 driven by unfavourable rough-polished price differential. Accordingly, HVK's profitability is expected to witness contraction in FY2024. This, coupled with higher interest costs, would impact the debt coverage indicators in FY2024. The debt coverage indicators are expected to improve from FY2025 onwards as the profitability levels improve on the back of better polished price realisations.

Working capital-intensive nature of operations – The company's working capital intensity of operations remains high, reflected in a net working capital vis-a-vis the operating income (NWC/OI) of 42% as on March 31, 2023. The company offers a credit period of up to 180 days to its customers, which also results in high receivable days. However, ICRA notes that the company has not reported any major bad debts in the last two years reflecting efficiency in collection thereby supporting the company's liquidity. The inventory holding period also remains high, as is typical of the industry.

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. 17 crore as on October 31, 2023. HVK's average utilisation of the working capital limit stood at 90% during the 12-month period ended on October 31, 2023. HVK's cash flows are also expected to remain adequate to meet its funding requirements. 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. 15.88 crore in FY2024 and FY2025 each from the Guaranteed Emergency Credit Loans (GECL). Further, the Group has plans to incur about Rs. 20 crore in FY2024 to upgrade the machineries.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a healthy increase in its sales and profitability going forward, resulting in strengthening of HVK's liquidity profile and debt coverage indicators on sustained basis. 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 sustained 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 –Cut and Polished Diamonds](#)
Parent/Group support	Not Applicable
Consolidation	For arriving at the ratings, ICRA has considered the consolidated financials of HVK International Private Limited. As on March 31, 2023, HVK had two subsidiaries which are enlisted in Annexure II.

About the company

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.

Key financial indicators

Consolidated	FY2022	FY2023
Operating income (Rs. crore)	1,680.6	2,267.1
PAT (Rs. crore)	55.8	57.8
OPBDIT/OI	5.2%	4.5%
PAT/OI	3.3%	2.5%
Total outside liabilities/Tangible net worth (times)	1.1	0.8
Total debt/OPBDIT (times)	3.9	3.4
Interest coverage (times)	5.2	4.2

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 (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
					Jan 05, 2024	Jan 05, 2023	Nov 15, 2021	Aug 30, 2021	Sep 07, 2020
1	Working capital limits	Long-term/ Short-term	251.0	-	[ICRA]BBB+ (Stable)/[ICRA] A2	[ICRA]BBB+ (Stable)/[ICRA] A2	[ICRA]BBB (Stable)/[ICRA] A3+	[ICRA]BBB (Stable)/ [ICRA] A3+	[ICRA]BBB (Negative)/ [ICRA] A3+
2	Term loan	Long-term	9.0	0.6	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

3	**Non-fund-based limits**	Short-term	5.0	-	[ICRA] A2	[ICRA] A2	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+

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**	FY2020	7.6%	FY2024	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	Rayed entity
HVK Diam BVBA	Full consolidation
HVK Jewels DMCC	Full consolidation

Source: *Company*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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