July 05, 2024

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	95.00	95.00	[ICRA]A- (Stable); rating reaffirmed
Total	**95.00**	**95.00**	

Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in Diamond India Limited's (DIL / the company) low-risk business profile, healthy debt metrics and strong liquidity position. The company's business operations assume minimal risk, with DIL acting as a facilitator between the supplier and the customer, as it is a nominated agency for the direct import of gold and silver. Due to the risk-averse nature of the bullion business, DIL's financial profile remains comfortable, with total outside liabilities relative to tangible net worth at 0.9 times (as on March 31, 2024). The liquidity profile is strong with free cash and liquid investments of Rs. 360.0 crore and fully unutilised bank limits of Rs. 95.0 crore as on March 31, 2024. ICRA notes advances of ~Rs. 215 crore as on March 31, 2024 received from its customers. While there was a cash outflow of Rs. 50 crore in April 2024 for a share buy-back, the liquidity position continues to remain strong. The company does not carry any inventory in the bullion business, eliminating risks related to fluctuation in metal prices or foreign exchange (forex) rates. The rating also derives comfort from DIL's experienced management. ICRA also notes that the company is exploring options to diversify its business ventures to improve revenues.

During FY2024, the company's operating profit declined to Rs. 13 crore in FY2024 from Rs. 30 crore in FY2023, largely impacted due to a significant decline in revenue from the diamond segment, which typically fetches higher operating profit margins. The absence of additional profit in the form of discounts on purchases of duty scrips in FY2024 due to lower discounts compared to FY2023 also impacted the company's profitability. While there is some improvement in rough diamond sales in 2M FY2025, trajectory of the same will be critical in determining the profitability metrics of the company going forward. While the demand for domestic bullion demand from the nominated agencies has been impacted to a certain extent due to the permission granted to certain qualified jewellers to directly import bullions through the India International Bullion Exchange (IIBX), healthy demand from its exporting customers is likely to support the company's revenues going forward. ICRA further notes that the indent received under India-UAE CEPA[1] to import most of its gold bullion requirement at concessional custom duty which will support its topline to certain extent.

The rating remains constrained by the trading nature of DIL's business, which remains exposed to stiff competition from gold refineries resulting in pricing pressure. ICRA also notes that the business is susceptible to uncertainties in gold trading operations due to regulatory measures from the Government of India (GoI), as witnessed in the past. The rating also factors in DIL's exposure to customer concentration risk, with 99% of revenues derived from the bullion segment and the top 5 customers accounting for 38% (in gold) and 95% (in silver) of revenues in FY2024. ICRA also notes that the company has been exploring options for diversifying its supplier base.

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

[1] Comprehensive Economic Partnership Agreement

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 via DGFT notification no. 88 dated February 26, 2009, for the direct import of gold and silver. The operations of the company are overseen by DIL's Chairman, Mr. Praveen Shankar Pandya, who, along with a group of professionals, has been associated with the industry for a long time. Mr. Pandya has extensive experience and serves as the director of several companies and was the Chairman of the Gems & Jewellery Export Promotion Council (GJEPC) from 1996 to 2000 and 2015 to 2017.

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, does not hold any inventory in the bullion business and does not bear any price or forex risk.

Comfortable financial profile - DIL's financial profile remains comfortable. The company's working capital cycle is supported by customer advances and the consignment nature of sales (in the bullion business), leading to no build-up of debtors. DIL's working capital requirements are primarily driven by its inventory holding of diamonds. DIL's revenues remained lower at Rs. 7,218 crore (as per provisional estimates) in FY2024 compared to high revenues of Rs. 24, 976 crore reported in FY2022, amid supply constraints in the bullion segment and demand pressure in the domestic market, following the grant of permission to certain qualified jewellers to directly import bullion through the IIBX. Demand headwinds in the diamond business impacted its profit margins in FY2024. Nonetheless, the company's financial risk profile remains comfortable with a TOL/TNW of 0.9 times (provisional estimates as on March 31, 2024) due to limited dependence on external debt and low working capital intensity. Liquidity remains strong, with free cash and liquid investments of Rs. 367 crore and fully unutilised bank limits of Rs. 95.0 crore as on March 31, 2024.

Credit challenges

Customer and supplier concentration risks - DIL's bullion business faces customer concentration risk with the top 5 customers, contributing 38% and 95% to its gold and silver segment revenues, respectively, in FY2024. However, the customer base across DIL's bullion business of DIL is expanding, with nearly 700 customers in export markets. DIL also has a concentrated supplier base, with Standard Bank accounting for 71% of supplies in the precious metals segment, following the supply constraints from the Russia-based VTB Bank (which has historically been DIL's largest supplier). The Alrosa Group accounted for more than 90% of supplies in the diamond business.

Thin profit margins, competition from refiners and banks - The company is an agency dealing in the procurement and distribution of precious metals (like gold and silver) as well as rough diamonds. The company's operating profit margin is low owing to low-value additive nature of the business and minimal risks assumed in the bullion business. The operating profit reduced to Rs. 13 crore in FY2024 from Rs. 30 crore in FY2023, largely impacted due to a significant decline in revenue contribution from diamond segment, which typically fetches a sizeable operating profit, resulting in the weakening of the net cash accruals. The absence of additional profit in the form of discounts on the purchases of duty scrips in FY2024, due to lower discounts compared to FY2023, also impacted the company's profitability. The company also faces competition from refiners in the precious metal segment, which enjoys a duty advantage, leading to pricing pressure and challenging demand conditions.

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 DIL's operating performance. The company has been facing demand pressure, particularly since FY2023, following the grant of permission to certain qualified jewellery manufacturers for direct import through IIBX, which provides them with an added duty advantage as well.

Liquidity position: Strong

DIL's liquidity is strong, with a healthy unencumbered cash balance and liquid investments of Rs. 367 crore as on March 31, 2024, on a standalone level. There is also sufficient cushion available from DIL's fund-based limits of Rs. 95 crore from the bank, which have largely remained unutilised during the 12-month period ended in March 2024. While there was a cash outflow of Rs. 50 crore in April 2024 towards a share buy-back, DIL's liquidity position continues to remain strong. The company has no long-term repayment obligations or any major capex plans in FY2025 and FY2026.

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 TOL/TNW over 1.5 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 the 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)

	FY2022	FY2023	FY2024*
Operating income	24,976.5	6,282.7	7,218.0
PAT	40.5	24.0	15.0
OPBDIT/OI	0.21%	0.48%	0.19%
PAT/OI	0.2%	0.4%	0.2%
Total outside liabilities/Tangible net worth (times)	1.0	0.6	0.9
Total debt/OPBDIT (times)	0.6	0.0	0.0
Interest coverage (times)	11.7	8.6	2.9

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 05, 2024	July 04, 2023	July 28, 2022	April 30, 2021
1	**Fund based – working capital limits**	Long term	95.0	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, fund based – working capital limits	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	**Long-term, fund-based – working capital limits**	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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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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