September 02, 2024

HVK International Private Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – fund-based working capital facilities	251.0	251.0	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed and outlook revised to Negative from Stable
Long-term – fund-based term loan	9.0	67.0	[ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable; assigned for the enhanced amount
Short-term – non-fund based	5.0	5.0	[ICRA]A2; reaffirmed
Total	**265.0**	**323.0**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Negative reflects the pressure on HVK International Private Limited's (HVK/the company) credit profile amid the subdued demand conditions in its key export markets. Despite reporting range-bound revenues at the consolidated level in FY2024, HVK's operating profit margin (OPM) declined by 100 bps, following the weakening of gross margin of roughs at its trading arm in Dubai and unfavourable rough-polished price differential. This, coupled with elevated debt levels due to high working capital intensity of operations, impacted the coverage indicators in FY2024. With some stabilisation in rough and polished prices, the OPM is expected to gradually improve, though the extent of improvement remains to be seen, especially in the backdrop of current demand headwinds in the cut and polished diamond (CPD) industry. ICRA also notes the company's focus on managing its working capital efficiently to reduce its dependence on debt in the near term, following the expected liquidation of the current high inventory levels. The company's ability to do the same would be one critical drivers of its credit profile and remain a key rating monitorable.

Besides, the company also remains exposed to adverse fluctuations in rough and polished diamond prices and stiff competition from unorganised as well as organised players. HVK's revenues and profitability remain susceptible to the foreign exchange (forex) fluctuation risk due to considerable revenue contribution from the export market, though a natural hedge by the import of rough diamonds and hedging via forward contracts mitigate the risk to a large extent.

The ratings, however, draw comfort from the extensive experience of the company's promoters in the cut and polished diamond (CPD) industry spanning over four decades along 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.

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. 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 and 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 40-50% of its rough requirements from De Beers and other primary suppliers, while the balance is procured from open market sources.

Credit challenges

Moderation in financial profile amid subdued demand conditions – HVK's OPM declined by 100 bps in FY2024, following the weakening of gross margin of roughs at its trading arm in Dubai and unfavourable rough-polished price differential amid subdued demand conditions. This, coupled with higher costs, impacted the debt coverage indicators in FY2024, with an estimated interest cover of 2.8 times. With some stabilisation in rough and polished prices, the OPM is expected to gradually improve, though the extent of improvement remains to be seen, especially in the backdrop of the current demand headwinds in the CPD industry. ICRA also notes the company's focus on managing its working capital efficiently to reduce its dependence on debt in the near term, following the expected liquidation of the current high inventory levels. The company's ability to do the same would be one critical drivers of its credit profile and remain a key rating monitorable, especially given the higher interest rates in FY2025, following the discontinuation of interest subvention.

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 41% as on March 31, 2024. 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 remains high amid subdued global demand conditions. This resulted in higher dependence on external debt to fund the working capital requirements. However, the company has not reported any major bad debts in the last two years reflecting efficiency in collection.

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 unorganised as well as 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 and 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. 16 crore as on July 31, 2024. HVK's average utilisation of the working capital limit stood at 92% during 4M FY2025 against 90% during the same period last year. 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 FY2025 and FY2026 each from the Guaranteed Emergency Credit Loans (GECL). Further, the company's plans to prepay the $ 1.5 million debt outstanding of H. V. Diam BVBA in FY2025 as it proposes to shift its trading operations from HVK Diam BVBA (based out of Belgium) to HVK Jewels DMCC (based out of Dubai). The prepayment would be funded through the timely collection of receivables and internal accruals. Further, the Group has plans to incur about Rs. 15 crore in FY2025 for maintenance capex, funded through internal accruals.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if the company demonstrates sustained improvement in its profit margins along with controlled working capital intensity of operations resulting in strengthening of HVK's debt coverage indicators and liquidity position.

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 Cut & Polished Diamonds
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HVK International Private Limited. As on March 31, 2024, 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. HVK Jewels DMCC is based out of Dubai and trades in rough and polished diamonds. H.V. Diam BVBA is based out of Belgium and trades in polished diamonds. The group has decided to cease the operations of H.V. Diam BVBA and shift its trading arm headquarters to HVK Jewels DMCC in FY2025.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	FY2024*
Operating income	1,680.6	2,267.1	2,233.6
PAT	55.8	57.8	28.9
OPBDIT/OI	5.2%	4.5%	3.4%
PAT/OI	3.3%	2.5%	1.3%
Total outside liabilities/Tangible net worth (times)	1.1	0.8	0.9
Total debt/OPBDIT (times)	3.9	3.4	4.3
Interest coverage (times)	5.2	4.2	2.8

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; *provisional estimates; Amounts in Rs. crore; 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

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based working capital facilities	Long-term/Short-term	251.0	**Sep 02, 2024**	**[ICRA]BBB+ (Negative)/ [ICRA]A2**	Jan 05, 2024	[ICRA]BBB+ (Stable)/ [ICRA]A2	Jan 05, 2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	Aug 30, 2021	[ICRA]BBB (Stable)/ [ICRA]A3+
									Nov 15, 2021	[ICRA]BBB (Stable)/ [ICRA]A3+
Fund-based term loan	Long-term	67.0	**Sep 02, 2024**	**[ICRA]BBB+ (Negative)**	Jan 05, 2024	[ICRA]BBB+ (Stable)	Jan 05, 2023	[ICRA]BBB+ (Stable)	Aug 30, 2021	[ICRA]BBB (Stable)
									Nov 15, 2021	[ICRA]BBB (Stable)
Non-fund based	Short-term	5.0	**Sep 02, 2024**	**[ICRA]A2**	Jan 05, 2024	[ICRA]A2	Jan 05, 2023	[ICRA]A2	Aug 30, 2021	[ICRA]A3+
									Nov 15, 2021	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – fund-based working capital facilities	Simple
Long-term – fund-based term loan	Simple
Short-term – non-fund based	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	**Long-term/Short-term – fund-based working capital facilities**	-	-	-	251.0	[ICRA]BBB+ (Negative)/[ICRA]A2
NA	**Long-term – fund-based term loan**	FY2020	8.2%	FY2029	67.0	[ICRA]BBB+ (Negative)
NA	**Short-term – non-fund based**	-	-	-	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	Rated entity
HVK Diam BVBA	Full Consolidation
HVK Jewels DMCC	Full Consolidation

Source: Company Data

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About ICRA Limited:

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