

September 03, 2024

B. Vijaykumar & Co.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working capital limits	47.00	47.00	[ICRA]A4; reaffirmed
Total	47.00	47.00	

*Instrument details are provided in Annexure

Rationale

The rating reflects B. Vijaykumar & Co.'s (BVC) continued strained liquidity position due to the stretch in its working capital cycle, characterised by elongated receivables and a significant inventory pile-up as on March 31, 2024. The firm's working capital intensity of operations remains high, as reflected by the net working capital vis-à-vis the operating income of 96% as on March 31, 2024, despite the partial collection of receivables (with ageing above 180 days) in FY2024. This, coupled with the modest scale of operations and thin profits, led to a continued high dependence on external borrowings, resulting in a sustained subdued financial profile.

The rating also remains constrained by the firm's geographically concentrated revenue profile and its vulnerability to fluctuations in rough and polished diamond prices as well as foreign exchange movements. Intense competition in the cut and polished diamond (CPD) industry, as well as the current demand headwinds, additionally limit the firm's pricing flexibility and exert pressure on the margins.

The rating, however, continues to derive strength from the long track record of BVC in the CPD industry and its established association with various customers. ICRA also notes the steady fund infusion by the partners in the firm, which has helped meet its debt repayments and partly support its working capital requirements.

Key rating drivers and their description

Credit strengths

Established track record in CPD industry – BVC has been involved in the CPD sector for over four decades. The business is managed by Mr. Bharat Shah, Mr. Rajiv Shah, and Mr. Rashesh Shah. Mr. Bharat Shah and Mr. Rashesh B Shah are actively involved in its marketing activities to add new customers and strengthen relationships with existing customers.

Established relationships with customers – The vast experience of its promoters has resulted in established relationships with customers as well as suppliers in India. BVC's customer profile has largely remained steady with several repeat customers and new customer additions in the local as well as international markets.

Credit challenges

Significant stretch in working capital cycle, weakened financial profile – BVC's receivable position remained stretched in FY2024, with outstanding receivables of Rs. 87.0 crore as on March 31, 2024, despite the recovery of most pending overdue receivables (outstanding for more than 180 days). Moreover, the inventory holding period increased to 130 days due to delays in the execution of certain orders, exposing the firm to high write-off risks. The firm's working capital intensity of operations increased to 96% in FY2024, primarily on account of this stretch in the receivable and inventory holding cycle. This, coupled with the modest scale of operations and thin profits, led to continued high dependence on external borrowings, translating

into a subdued financial profile. The total debt vis-à-vis the operating profit stood at 8.0 times as on March 31, 2024, and the interest coverage at 1.4 times in FY2024 (as per provisional estimates). ICRA, however, notes the steady fund infusion by the partners in the firm over the years, which has helped meet its debt repayments and partly support its working capital requirements.

Risk of capital withdrawal as inherent in partnership concern – Given BVC’s constitution as a partnership firm, it is exposed to discrete risks, including the possibility of capital withdrawal by the partners (as experienced in the past) and the dissolution of the firm upon death, retirement, or insolvency of the partners.

High geographical concentration – Hong Kong, US and Italy are the key revenue contributors for the firm, accounting for 77% of total revenues in FY2024. As a result, economic downturns in the key consuming markets can adversely impact its overall operations.

Exposure to intense competition; subdued demand conditions – The CPD industry is highly unorganised, and BVC encounters intense competition from the local players. The high degree of fragmentation led to stiff competition in this segment, limiting the pricing power of the companies and affecting margins. At present, the CPD industry is facing headwinds due to inflationary pressures in key consuming nations. Any further correction in polished prices would impact the overall revenues and performance of the CPD players in FY2025.

Liquidity position: Stretched

The firm’s liquidity position remains stretched owing to its prolonged working capital cycle in the form of significant stretch in working capital cycle coupled with limited headroom in the working capital utilisation. As on March 31, 2024, the firm had available unutilised limits of Rs. 0.03 crore. Besides, the firm has annual repayment obligations of Rs. 2.35 crore in both FY2025 and FY2026, with a free cash balance of Rs. 0.04 crore as on March 31, 2024. ICRA, however, notes the steady fund infusion by the partners in the firm over the years, which has helped meet its debt repayments and partly support its working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in the liquidity position of the firm, led by an improvement in the collection cycle or healthy improvement in revenues and profits.

Negative factors – Pressure on the rating could arise if there is a significant weakening in the liquidity position of the company, resulting in an unfavourable debt servicing track record.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Cut & Polished Diamonds
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

BVC was set up as a partnership firm by Mr. Bharat Shantilal Shah in 1971 and is involved in the manufacturing of cut and polished diamonds (CPDs). At present, BVC trades in rough diamonds and manufactures and exports polished diamonds

ranging from 3 cents to 1 carat. The company has its administration and marketing office in Mumbai and a manufacturing unit in Dahisar, Mumbai.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	210.6	161.6	139.4
PAT	15.6	2.2	1.2
OPBDIT/OI	7.9%	5.0%	5.2%
PAT/OI	7.4%	1.4%	0.8%
Total outside liabilities/Tangible net worth (times)	1.8	0.8	0.7
Total debt/OPBDIT (times)	3.7	7.2	8.0
Interest coverage (times)	4.2	1.7	1.4

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount 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)	Sep 03, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Working capital limits	Short Term	47.00	[ICRA]A4	14-May-24	[ICRA]A4	07-Jul-23	[ICRA]A4	05-May-22	[ICRA]A4	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term - 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	Working capital limits	NA	-	NA	47.00	[ICRA]A4

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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