September 30, 2024

Dharmanandan Diamonds Private Limited; Long-term rating downgraded to [ICRA]A- (Stable) and short-term rating 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); downgraded from [ICRA]A (Stable) [ICRA]A2+; reaffirmed
Long-term/ Short -term – Unallocated Limits	135.00	135.00	[ICRA]A- (Stable); downgraded from [ICRA]A (Stable) [ICRA]A2+; reaffirmed
Total	**1,625.00**	**1,625.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating downgrade reflects the pressure on Dharmanandan Diamonds Private Limited's (DDPL/the company) credit profile amid the global subdued demand conditions in its key export markets. Despite steady operating profit margins (OPM) in FY2024, DDPL's performance was impacted due to a significant decline in revenues on the back of global demand slowdown amid inflationary pressures. This, coupled with elevated debt levels due to high working capital intensity of operations because of high inventory holding, moderated the coverage indicators in FY2024. The demand conditions remain subdued in FY2025. The company has also taken a conscious decision to deal only in remunerative transactions. This is expected to translate into 15% YoY revenue decline in FY2025, with decline in OPMs. The inventory levels continue to remain high, though some moderation has been seen in the recent months. ICRA also notes the company's focus on managing its working capital efficiently to reduce its dependence on debt in the near term. Nonetheless, given the decline in revenues and margins, the debt coverage indicators will continue to remain subdued.

Besides, DDPL remains exposed to adverse fluctuations in polished diamond prices and stiff competition from unorganised as well as organised players. The company's profitability also 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 ratings, however, draw comfort from the extensive experience of DDPL's 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, 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 spaces, providing easy access to the global market.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that DDPL's credit profile is expected to remain supported by its focus on controlling working capital cycle, hence forth as well as the management's focus on remunerative transactions.

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 leading players in the industry and generated Rs. 5,052 crore collectively from the CPD and jewellery divisions in FY2024. DDPL has a strong global distribution network in place through its associate/step-down subsidiaries in the 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, etc., 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 with a steady supply of quality roughs at competitive prices.

Large networth base, adequate liquidity position – While debt coverage indicators moderated in FY2024, the capital structure of the company remained comfortable with a gearing of 1.0 times, marked by its large net-worth base of Rs. 1,518 crore. The debt coverage indicators are expected to remain moderated in FY2025, 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 remains a key monitorable.

Credit challenges

Moderation in financial profile amid subdued demand conditions – Despite steady operating profit margins (OPMs) in FY2024, DDPL's performance was impacted due to significant decline in revenues on the back of global demand slowdown amid inflationary pressures. This, coupled with elevated debt levels due to high working capital intensity of operations due to high inventory holding, moderated the coverage indicators in FY2024. The demand conditions remain subdued in FY2025. The company has also taken a conscious decision to deal only in remunerative transactions. This is expected to translate into 15% YoY revenue decline in FY2025, with decline in OPMs. The inventory levels continue to be high, though with some moderation in the recent months. ICRA also notes the company's focus on managing its working capital efficiently to reduce its dependence on debt in the near term through deferring rough purchases. Nonetheless, given the decline in revenues and margins, the debt coverage indicators will remain subdued.

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 FY2024, primarily due to its high inventory levels amid subdued demand conditions. ICRA notes that DDPL's working capital intensity of operations also remained strained due to elongated receivables cycle, with the company reporting 2% of its receivables pending to be collected for above 180 days largely from one of its customers. However, the company is optimistic to recover the same as it is a long-term customer. 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; revenues and profitability remain exposed to fluctuations in forex and rough diamond prices – The diamond industry is fragmented with low value addition and intense competition. DDPL faces intense competition from 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 develop healthy business relationships with customers and suppliers. Besides, 80-90% of DDPL's revenues are denominated in foreign currency (primarily US dollar). Hence, the company is exposed to adverse fluctuations in the currency markets. However, a natural hedge from the import of rough diamonds, packing credit in foreign currency and forward contracts, provide protection against foreign exchange rate fluctuations to an extent.

Liquidity position: Adequate

DDPL's liquidity position remains adequate, supported by free cash and bank balance of ~Rs. 53 crore and a cushion available in the form of undrawn working capital limits of 26% of the sanctioned limits as of August 31, 2024. 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. 5.6 crore in FY2025 and FY2026 each. Further, it does not envisage any major debt-funded capital expenditure (capex) over the near to medium term. The capex is estimated at Rs. 10-20 crore per annum over the next 2-3 years, funded by internal accruals.

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.

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 total outside liabilities vis-à-vis tangible networth remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Cut & Polished Diamonds
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 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)

Consolidated	FY2023	FY2024
Operating income	7,164.8	5,052.1
PAT	178.2	102.6
OPBDIT/OI	4.9%	4.9%
PAT/OI	2.5%	2.0%
Total outside liabilities/Tangible net worth (times)	1.9	1.5
Total debt/OPBDIT (times)	4.9	6.3
Interest coverage (times)	4.0	2.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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

	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
				Sep 30, 2024	Sep 26, 2023	Jul 04, 2022	Jul 05, 2021
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-(Stable) /[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-(Stable) /[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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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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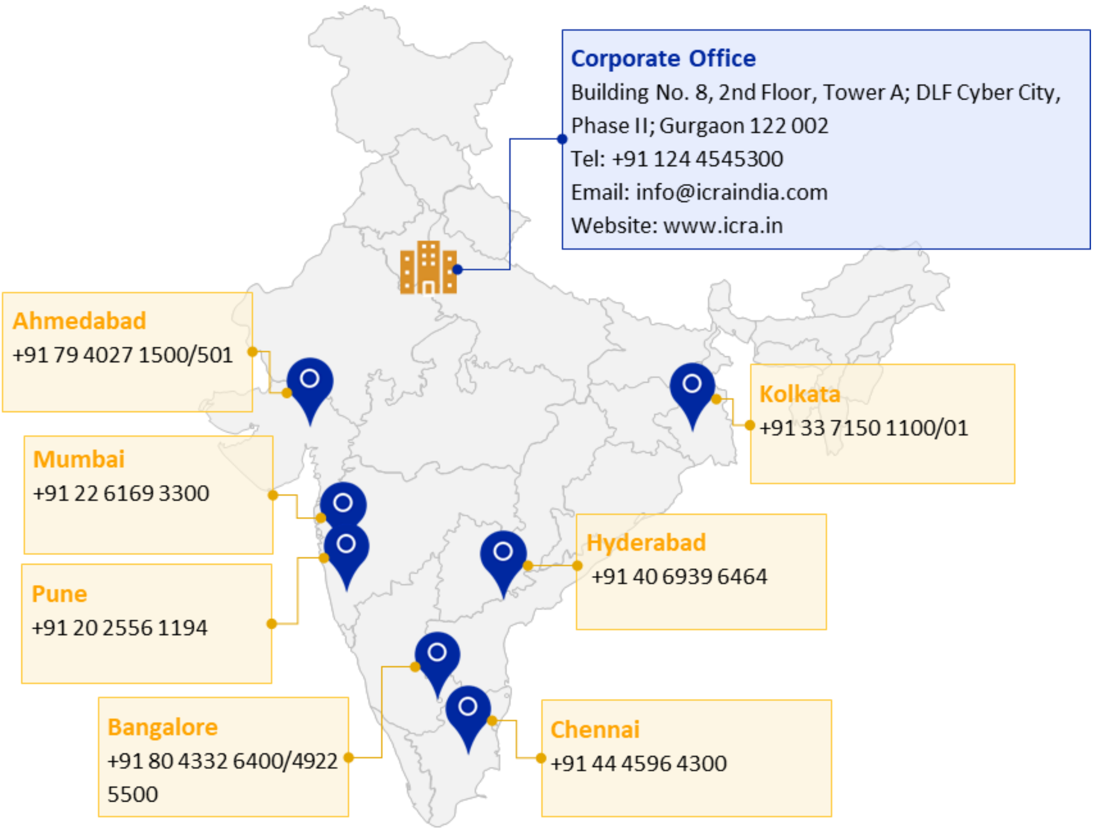

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