October 08, 2024

M. B. Mehta & Co.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term / short term- Fund based – Post shipment credit	20.00	20.00	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Long term / short term fund based – Export packing credit	(6.00)	(6.00)	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Long term / short term fund based – PCFC	(20.00)	(20.00)	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of M. B. Mehta & Co. (MBM) and M.B. Polishing Works (MBPW), together referred to as the Group. These entities have significant operational and financial linkages as they are in the same line of business and have a common management.

The ratings draw comfort from the extensive experience and established track record of the Group's promoters of more than three decades in the cut and polished diamond (CPD) industry. The financial profile of the Group remains comfortable, aided by its controlled working capital intensity of operations. Consequently, the Group's reliance on external debt has remained negligible, leading to healthy debt coverage metrics and a comfortable capital structure, despite regular capital withdrawals. In FY2025, despite the prevailing demand headwinds in the CPD industry, the financial profile of the Group is expected to remain comfortable, led by its controlled working capital cycle and its focus on low carat diamonds, which has relatively stable demand.

The ratings, however, remain constrained by the Group's exposure to high customer concentration risk, with the top three customers accounting for 61% of the revenues in FY2024. The Group's operating profit margin (OPM) also remains susceptible to adverse movement in prices of diamonds and foreign exchange rates as ~64% of the Group's total revenue in FY2024 was derived from exports. However, the foreign exchange risk is partly mitigated by the natural hedge from diamond imports. The intensely competitive nature of the industry additionally constrains the margins of the Group and limits its pricing flexibility. ICRA notes the risks associated with the partnership constitution of the firm, including the risk of capital withdrawals.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will continue to maintain its comfortable financial profile, aided by its controlled working capital intensity of operations, limited capital expenditure (capex) plans and established relationships with customers and suppliers.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record of over three decades in the diamond industry – The partners of the firms have more than three decades of experience in the business of diamond manufacturing and trading. The extensive experience of the partners in the industry supported the Group in establishing strong relationships with customers and suppliers.

Comfortable financial profile – The Group's debt profile, like most CPD companies, is short term in nature for meeting its working capital requirements. The Group's dependence on working capital limits remained negligible due to its controlled working capital intensity. This resulted in a comfortable gearing of 0.1 times and total outside liabilities vis-à-vis the tangible net worth (TOL/TNW) of 1.1 times, as on March 31, 2024. The coverage indicators also remained healthy, with an interest cover of 14.4 times in FY2024, though the same declined from 21.8 times in FY2023 owing to lower profitability. The total debt-to-operating profit also remained comfortable at 0.5 times as of March 31, 2024. The same is expected to remain comfortable, aided by its controlled working capital intensity of operations and no major capital expenditure (capex) plans in the near future.

Credit challenges

High customer concentration risk – The customers of the Group are mainly wholesalers and traders located in the domestic and overseas markets. The Group has a concentrated customer base with the top three customers accounting for 61% of the revenues in FY2024. However, the Group has been dealing with most of these customers for many years and has established relationships with them.

Demand headwinds being faced by the CPD industry – The CPD industry is facing demand headwinds due to inflationary pressure in key consuming nations. While the Group reported higher volume offtake in 4M FY2025 in comparison to the same period last year, revenues and profitability levels are expected to remain range bound as demand is not expected to improve in the current fiscal.

Risks associated with the partnership constitution of firms – ICRA notes that the Group is susceptible to the risk of capital withdrawals by the partners, which may impact its net worth. A substantial portion of the amount payable to the retiring partner was repaid in FY2024 and 5M FY2025. Further, there are expected withdrawals worth Rs. 13 crore in FY2025. Besides, the Group's margins are susceptible to exchange rate fluctuations as exports account for the major part of the sales and are dollar denominated. However, the risk is partially mitigated by a natural hedge through imports and forward contracts. Its margins also remain exposed to the volatility in rough diamond prices and to the intense competition prevalent in the industry, affecting its pricing flexibility to a large extent.

Liquidity position: Adequate

The liquidity position of the Group is adequate, marked by the absence of any debt repayment and limited capex plans. The Group does not have any external long-term debt as of March 31, 2024, and there are no scheduled repayments. Besides, it does not have any debt-funded capex plan in the near term. The unencumbered cash and bank balance stood at Rs. 13.0 crore as of March 31, 2024. Undrawn working capital limits of Rs. 40 crore provide additional liquidity cushion to the Group.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's ratings if there is a sustained healthy improvement in its revenues while maintaining its profitability and a comfortable liquidity position.

Negative factors – Pressure on the ratings could arise in case the Group's credit metrics and the liquidity position weaken. Any substantial capital withdrawal by the partners and/or payouts to related/associate concerns, adversely impacting the liquidity position, would also be negative factors. Weakening of total outside liabilities vis-à-vis the tangible net worth to above 2 times, on a sustained basis, would also be a negative trigger.

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 MBM and MBPW

About the company

MBM commenced operations in 1970s for trading in polished diamonds and MBPW for manufacturing of diamonds. However, at present, both the firms trade in rough and polished diamonds.

MBM is a Responsible Jewellery Council (RJC) certified partnership firm established in 1973 while MBPW was established in 1984 by Mr. Manoj Mehta and Mr. Kiran Mehta. The firm is managed by seven partners. The firm has a marketing office at BKC, Mumbai. The cutting and polishing of diamonds are done through job work by the Parmes Diamonds Manufacturing LLP (owned by Mehta Brothers), located at Navsari, Gujarat and other processors in Mumbai and Surat. The group's forte is precision manufacturing of diamonds in various fancy shapes like marquise, princess, oval, heart, cushion, pear, radiant, asscher, among others. It deals in diamonds of caratage ranging from 0.03 to 0.50 carat diamonds in VS+ clarity.

Key financial indicators (consolidated, audited)

	FY2023	FY2024
Operating income	731.6	498.5
PAT	38.3	18.9
OPBDIT/OI	8.0%	6.0%
PAT/OI	5.2%	3.8%
Total outside liabilities/Tangible net worth (times)	1.4	1.1
Total debt/OPBDIT (times)	0.2	0.5
Interest coverage (times)	21.8	14.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; Consolidated, includes that of MBM and MBPW

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 rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 08, 2024	Date	Rating	Date	Rating	Date	Rating
Fund Based – Post Shipment Credit (PSC)	Long Term/ Short Term	20.00	[ICRA]BBB-(Stable)/ [ICRA]A3	06-Oct-2023	[ICRA]BBB-(Stable) / [ICRA]A3	15-Nov-22	[ICRA]BBB-(Stable) / [ICRA]A3	09-Dec-21	[ICRA]BBB-(Stable) / [ICRA]A3
Fund Based – Export Packing Credit (EPC)*	Long Term/ Short Term	(6.00)	[ICRA]BBB-(Stable)/ [ICRA]A3	06-Oct-2023	[ICRA]BBB-(Stable) / [ICRA]A3	15-Nov-22	[ICRA]BBB-(Stable) / [ICRA]A3	09-Dec-21	[ICRA]BBB-(Stable) / [ICRA]A3
Fund Based – PCFC*	Long Term/ Short Term	(20.00)	[ICRA]BBB-(Stable)/ [ICRA]A3	06-Oct-2023	[ICRA]BBB-(Stable) / [ICRA]A3	15-Nov-22	[ICRA]BBB-(Stable) / [ICRA]A3	09-Dec-21	[ICRA]BBB-(Stable) / [ICRA]A3

**Sub-limit under post shipment credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Post shipment credit (PSC)	Simple
Fund Based - Export packing credit (EPC)	Simple
Fund Based - PCFC	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	Post shipment credit (PSC)	-	-	-	20.0	[ICRA]BBB- (Stable) / [ICRA]A3
NA	Export packing credit (EPC)	-	-	-	(6.0)	[ICRA]BBB- (Stable) / [ICRA]A3
NA	PCFC	-	-	-	(20.0)	[ICRA]BBB- (Stable) / [ICRA]A3

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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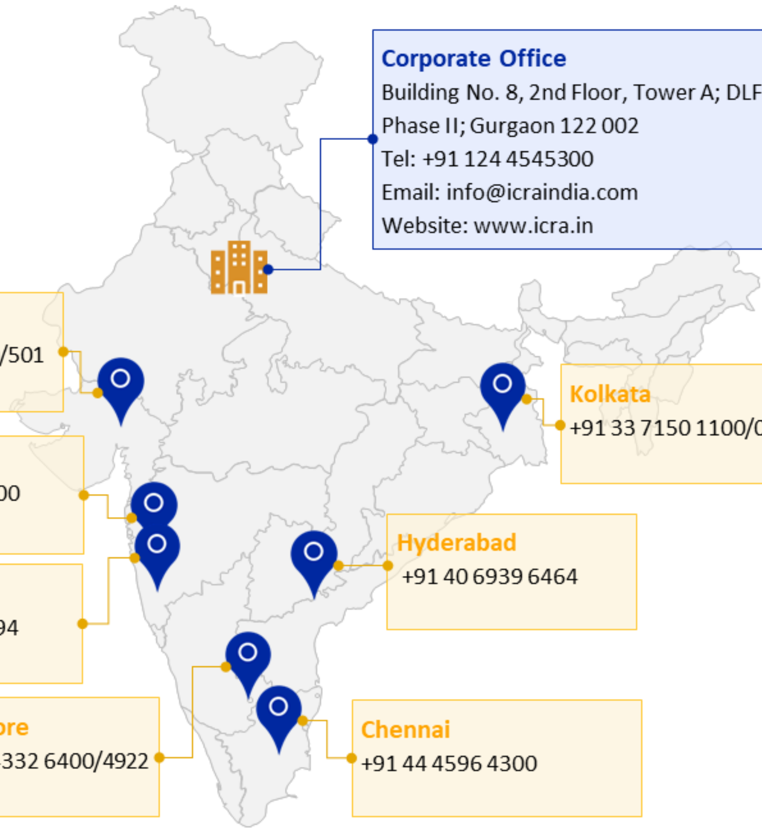

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