

November 04, 2024

Sanghvi & Sons: 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 –working capital facilities	70.00	70.00	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
Total	70.00	70.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factors in the extensive domain experience of Sanghvi & Sons' (SS) partners spanning over three decades, the firm's long track record of operations in the cut and polished diamond (CPD) industry, as well as its established relationships with customers and suppliers. The ratings also consider adequate buffer from undrawn working capital limits of Rs. 41 crore as on August 31, 2024.

The firm reported revenues of Rs. 310.1 crore in FY2024 against Rs. 290.5 crore in FY2023. The growth was marginal due to the ongoing subdued global conditions, which adversely impacted the demand for discretionary items. While lower volume offtake impacted the overall scale of operations, the firm's increased presence in the high caratage diamonds, which yield higher average realisation, supported overall revenues. Demand conditions remain subdued in the current fiscal as well, which is expected to lead to range-bound revenues in FY2025 as well.

The firm's ratings are, constrained due to the working capital intensive of operations on the back of its high inventory holding period as well as its modest profits, which can be attributed to the low value additive nature of the business. Besides, unfavourable rough-polished price differential driven by subdued global demand conditions kept the operating profit margins (OPMs) under check in FY2024. This resulted in a continued moderate financial profile with an interest cover of 2.7 times in FY2024. Being a net importer, the firm's profit margins are susceptible to foreign exchange fluctuations, although the risk is partially offset by its presence in exports and partial hedging through forward contracts. The profit margins are also vulnerable to stiff competition from unorganised as well as organised players, resulting in limited pricing power. The ratings also continue to consider the risks associated with SS' status as a partnership concern, wherein any substantial withdrawal from the capital account can adversely impact its capital structure.

The Stable outlook on the long-term rating reflects ICRA's opinion that SS will continue to sustain its operational performance, led by long-term relationships with its customers and suppliers.

Key rating drivers and their description

Credit strengths

Experience of partners in the industry – SS manufactures and trades in CPDs of large carat-sized diamonds (above 3 carats) in different shapes, sizes, and colours. The firm, at present, is managed by three partners — Mr. Mohanlal Sanghvi, Mr. Roshan Sanghvi and Mr. Dhanesh Sanghvi. The partners have an extensive experience of over three decades in this industry.

Long-term relationships with customers and suppliers – The firm enjoys established relationships with its customers, including traders and jewellery manufacturers, in the domestic as well as overseas markets. SS' customer base is diversified, with the top-10 customers accounting for 30-40% of the total revenues in the last three years, ending in FY2024. The firm caters to key export markets such as Hong Kong, the US, the UAE, and Belgium, among others. The firm enjoys established relationships with diamond auction and tender houses and wholesalers, which ensure uninterrupted supply of rough diamonds.

Credit challenges

Demand headwinds faced by CPD industry, moderate financial profile – The CPD industry is facing demand headwinds due to inflationary pressure in key consuming nations. This has impacted the revenues and profitability levels in FY2024. The same are expected to remain rangebound in FY2025 as well as the demand is not expected to improve in the current fiscal. Besides, the firm's credit profile remained moderate in FY2024 with an interest cover of 2.7 times and total debt vis-a-vis the operating profit of 3.1 times. The debt coverage indicators are expected to remain subdued in FY2025 as well. The credit metrics are likely to improve in the medium term on the back of favourable demand conditions and would remain a key monitorable.

Working capital intensive nature of operations – The firm's working capital intensity is high, as seen from the high inventory holding period over the last three years. At any given time, the firm holds an inventory of 125 days to 135 days. In FY2024, the firm's net working capital vis-à-vis the operating income (NWC/OI) remained high at 34% due to high inventory holding period and timely liquidation of the same will remain critical amid demand slowdown. The firm extends credit up to 120 days to its customers and gets credit of 90-120 days from its suppliers.

Exposure to foreign exchange fluctuations; risks associated with partnership nature of business – As a net importer, the firm is exposed to risks associated with adverse movements in foreign exchange rates. However, the risk is partially mitigated by the natural hedge from the export of polished diamonds. In addition, the firm partly hedges its exposure through forward contracts. Also, diamond dollar account (DDA, accounting for 15-20% of revenues) sales undertaken by SS accords protection against foreign currency fluctuations to an extent. The firm is also exposed to the risk of capital withdrawals by the partners, which could impact its capital structure. Any significant withdrawal may lead to funding gaps and increase dependence on external borrowings, adversely impacting the capital structure.

Liquidity position: Adequate

The liquidity position of the firm remains adequate, marked by buffers available from undrawn lines of credit worth Rs. 41 crore as on August 31, 2024. The annual repayment obligations for FY2025 and FY2026 stand at Rs. 3.1 crore each. The firm does not envisage any major capital expenditure requirement over the near-to-medium term, which supports its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade SS' ratings if the firm demonstrates a consistent growth in revenues and profits. Improved working capital management due to faster turnaround of the inventory along with timely collection of receivables, which materially improves its liquidity profile, would also be a positive trigger.

Negative factors – Pressure on SS' ratings could arise if any moderation in the firm's revenues/profitability metrics or a stretch in the working capital cycle or substantial capital withdrawals adversely impacts its financial profile and liquidity position. Weakening in the interest coverage ratio to less than 2.0 times, on a sustained basis, would also trigger a rating downgrade.

Analytical approach

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

About the company

SS was established as a partnership firm in 1981 by Mr. Tarachand Sanghvi and Mr. Mohanlal Sanghvi. The firm is involved in the trading and manufacturing of CPDs. The manufacturing of polished diamonds forms the core business of the firm and accounts for over 95% of its revenues while trading in roughs accounts for the rest. The firm's product profile comprises large carat sized diamonds (3 carats and above). SS sells its products in the domestic as well as international markets through traders, marketing alliances and its web portal. The firm's manufacturing facilities are in Surat and Navsari in Gujarat and its marketing and corporate offices are in Mumbai, Maharashtra.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	290.5	310.1
PAT	4.4	4.8
OPBDIT/OI	4.5%	3.7%
PAT/OI	1.5%	1.5%
Total outside liabilities/Tangible net worth (times)	1.7	0.7
Total debt/OPBDIT (times)	5.5	3.1
Interest coverage (times)	2.2	2.7

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

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Nov 04, 2024	Mar 18, 2024	Feb 23, 2023	Feb 10, 2022
1 Fund based – working capital facilities	Long term/Short term	70.0	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term, fund based –working capital facilities	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 – PC /PCFC	-	-	-	16.0	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	Long term/Short term, Fund Based –FBP/FCBD/UFBP/PCBP	-	-	-	19.0	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	Long term/Short term, Fund Based – Standby Export Limit	-	-	-	7.0	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	Long term/Short term, Fund Based – Foreign Bills Discount	-	-	-	24.0	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	Long term/Short term, Fund Based – Standby Limit	-	-	-	4.0	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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Branches



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