December 24, 2024

Venus Jewel: 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 limits	620.0	560.0	[ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed
Long-term/Short-term non-fund based limits	0.1	0.0	-
Long-term/Short-term unallocated limits	85.0	145.1	[ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed
Total	**705.1**	**705.1**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings take comfort from Venus Jewel's (VJ) established market position in the Indian CPD industry and the extensive domain experience of its promoters. Apart from being a De Beers sighth older, the firm procures rough diamonds directly from leading global mining companies such as Rio Tinto Diamonds and Dominion Diamond Corporation, assuring a steady supply of rough diamonds. ICRA notes the firm's online presence through its website, providing easier access to a diversified global market. VJ derives 50-60% of its total sales every year through the online route, which results in very low receivable days. Besides, ICRA takes comfort from its robust business model and professional management with good internal controls, leading to high operating efficiency.

The ratings also factor in the firm's satisfactory financial profile, characterised by large net worth with total outside liabilities vis-à-vis tangible net worth (TOL/TNW) ratio of 0.3 times as on March 31, 2024 (at the consolidated level). However, ICRA notes the moderation in profits and resultant debt coverage indicators in FY2024 due to unfavourable rough polished differential amid falling realisations and high rough prices, despite a decline in debt levels. The differential has remained unfavourable in H1 FY2025, although some improvement is expected in Q4 FY2025, with the recent correction in rough prices. Near-term headwinds in the form of global demand slowdown also remain, resulting in revenue decline and continued pressure on profitability in FY2025. ICRA, however, draws comfort from VJ's limited reliance on debt, along with adequate liquidity position. This, in turn, is also bolstered by its healthy net worth position, controlled working capital cycle and limited capital expenditure (capex) requirements.

The ratings, however, remain constrained by VJ's high inventory holding period, its elevated exposure to adverse fluctuations in rough diamond prices and stiff competition from the organised and unorganised players. The firm's profitability also remains susceptible to foreign exchange fluctuation risks due to its export-dominated revenue profile, although a natural hedge from the import of rough diamonds mitigates the risk to a large extent. The ratings remain susceptible to the risk of capital withdrawals, given the partnership constitution of the firm. ICRA notes that huge capital withdrawals in the past were primarily used for incremental investments in tax-free bonds by the partners. These tax-free bonds are kept as collateral for VJ's bond-backed limits due to which the firm enjoys relatively favourable interest rates from banks.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that despite an expected contraction in revenues for FY2025 due to global demand slowdown, VJ's credit profile is expected to remain comfortable, supported by prudent working capital management and limited reliance on debt.

Key rating drivers and their description

Credit strengths

Dominant market position and long track record of promoters in CPD industry; robust manufacturing set-up - Over the last five decades, VJ has established itself as one of the dominant players in the CPD industry, especially in large-sized CPDs. The extensive domain experience of its promoters has helped the firm command a dominant position in the Indian CPD industry, reflected in its large operating base, backed by a strong manufacturing set-up along with robust systems and processes. It has been a pioneer in the domestic CPD industry with respect to setting up an in-house polished diamond grading system. VJ derives 50-60% of its total revenues through its online portal every year. The firm has a robust demand-driven manufacturing set-up in Surat, Gujarat, aided by strong IT systems and internal controls.

Sightholder 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, Rio Tinto, among others, for sourcing rough diamonds. However, due to the stringent qualification requirements of the miners, only a few entities across the globe have direct access to the supply. VJ features among these top global entities and is a sightholder with De Beers. This makes the firm's operations competitive in the form of a steady supply of quality roughs at competitive prices.

Adequate liquidity position; large net worth base - While debt coverage indicators moderated in FY2024, the company's capital structure remained comfortable with a gearing of 0.2 times and total outside liabilities vis-à-vis tangible net worth of 0.3 times, marked by its large net worth base of Rs. 1,164 crore (standalone level). The debt coverage indicators are expected to remain moderate in FY2025, although 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 remain a key monitorable.

Credit challenges

Demand headwinds in the CPD industry - VJ's revenues declined 19% YoY in FY2024 amid global demand headwinds due to inflationary pressures. Coupled with an unfavourable rough-polished diamond price differential, this resulted in weakened operation profit margins in FY2024. The differential has remained unfavourable in H1 FY2025 as well, although some improvement in the same is expected in Q4 FY2025, with the recent correction in rough prices. Near-term headwinds in the form of a slowdown in global demand also remain, which will result in revenue decline and continued pressure on profitability in FY2025. ICRA, however, draws comfort from the entity's limited reliance on debt, along with its adequate liquidity position.

Risk of capital withdrawal associated with partnership firms - Being a partnership firm, VJ is exposed to the risk of capital withdrawals. ICRA notes that huge capital withdrawals in the past were primarily used by the partners to make incremental investments in tax-free bonds. These tax-free bonds are kept as collateral for VJ's bond-backed limits, for which the firm enjoys relatively favourable interest rates from banks.

High inventory holding period; margins susceptible to fluctuations in forex rates and diamond prices - While the receivable days remain low as a large proportion of sales is on advance and cash-on-delivery (COD) basis, the inventory holding period remains high, leading to high working capital intensity. ICRA, however, derives comfort from VJ's prudent working capital management in the current year, also reflected in the low utilisation of bank limits, which stood at ~40% during the 12-month period ended in September 2024. As a substantial part of VJ's revenues is denominated in foreign currency (primarily in USD), the firm is exposed to the adverse fluctuations in currency markets. However, on most occasions, the exports are backed by an equivalent amount of imports and hence, it enjoys a natural hedge to a large extent. The firm is also exposed to adverse fluctuations in prices of rough and polished diamonds. Further, VJ faces intense competition from unorganised players as well as from a few established organised players, which limits its pricing power. However, the firm's established presence in the industry, specialisation in niche high-quality diamonds and an established brand name helped it to develop healthy business relationships with customers and suppliers.

Liquidity position: Adequate

The firm's liquidity position is adequate, supported by the headroom available in the form of undrawn working capital limits. VJ's average utilisation of working capital limits stood at 40% during the 12-month period ended September 30, 2024 (reflecting an average unutilised limit of Rs. 443.0 crore during the period with adequate drawing power). The cash flow generation for FY2025 remains adequate vis-à-vis its requirements. VJ's debt profile, like most CPD entities, is short-term in nature for meeting its working capital requirements. Out of Rs. 840 crore fund-based limits sanctioned and being availed by the firm, more than 70% are backed by the tax-free bonds held by the partners. VJ only avails 90 days' pre-shipment credit in foreign currency (PCFC) to fund its imports, which is repaid from its export proceeds (exports are mainly on cash/advance basis). There are no major capex requirements over the near-to-medium term, which also provides some comfort to its liquidity.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a substantial growth in the scale of operations and profitability, improving VJ's overall financial profile and liquidity position on sustained basis.

Negative factors – Pressure on VJ's ratings could arise if there is a deterioration in its earnings, or a stretch in the working capital cycle, leading to a sustained moderation in its financial profile and/or the liquidity position. A specific credit metric for downgrade includes TOL/TNW remaining above 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Indian Gems & Jewellery Industry – Cut & Polished Diamonds Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of Venus Jewel and its subsidiary Venus Jewel Bostwana Proprietary Limited, given the significant operational, financial, and managerial linkages between them. The consolidated financials have not been prepared by the firm and accordingly, the key financial indicators on a consolidated level are not disclosed in the rationale.

About the company

Venus Jewel is a partnership firm established in 1969. Along with being a responsible jewellery council certified member, it directly secures rough supply from reputed miners like De Beers, Alrosa, Rio Tinto Diamonds and Dominion Diamond Corporation. The firm's forte is precision manufacturing of high-end round as well as fancy-shaped diamonds like square emerald, emerald, cushion, pear, heart, princess, radiant, square radiant, oval of exceptional symmetry and polish; ranging from - 0.30 to +30.00 carats in size and in various colours and purities.

Venus Jewel was established in 1969 by its founding partners - Mr. Sevantilal P. Shah and Mr. Ramniklal P. Shah. The founding partners have been instrumental in developing modern manufacturing facilities, IT systems and establishing a globally recognised brand name. At present, the founding partners are assisted by second and third-generation family members as well as other professionals with expertise in managing the relevant business areas.

VJ, through its wholly-owned subsidiary (Venus Jewel Botswana Proprietary Limited), commenced operations in Botswana in FY2022. The subsidiary is engaged in the same line of business.

Key financial indicators

Consolidated	FY2023 (Audited)
Operating income	3,187.3
PAT	77.8
OPBDITA/OI	5.3%
PAT/OI	2.4%
Total outside liabilities/Tangible net worth (times)	0.5
Total debt/OPBDITA (times)	2.7
Interest coverage (times)	5.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Standalone	FY2023 (Audited)	FY2024 (Audited)
Operating income	3,173.9	2,509.9
PAT	91.4	33.5
OPBDITA/OI	5.5%	2.8%
PAT/OI	2.9%	1.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDITA (times)	2.6	3.8
Interest coverage (times)	6.3	2.8

Source: Company, ICRA Research; 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)	Dec 24, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long-term/Short-term	560.0	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	07-Sept-23	[ICRA]A+ (Stable)/ [ICRA]A1	23-Jun-22	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	31-Mar-23	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	-	-	-	-
Non-fund-based limits	Long-term/Short-term	0.0	-	-	-	07-Sept-23	[ICRA]A+ (Stable)/ [ICRA]A1	23-Jun-22	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	31-Mar-23	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	-	-	-	-
Unallocated limits	Long-term/Short-term	145.1	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	07-Sept-23	[ICRA]A+ (Stable)/ [ICRA]A1	23-Jun-22	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	31-Mar-23	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
		-	-	-	-	-	-	-	-	-	-

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**	NA	NA	NA	560.0	[ICRA]A+ (Stable)/ [ICRA]A1
NA	**Unallocated limits**	NA	NA	NA	145.1	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Sr	Entity Name	Ownership	Consolidation Approach
1	**Venus Jewel**	Rated entity (Parent entity)	Full consolidation
2	**Venus Jewel Botswana Proprietary Limited**	Wholly-owned subsidiary	Full consolidation

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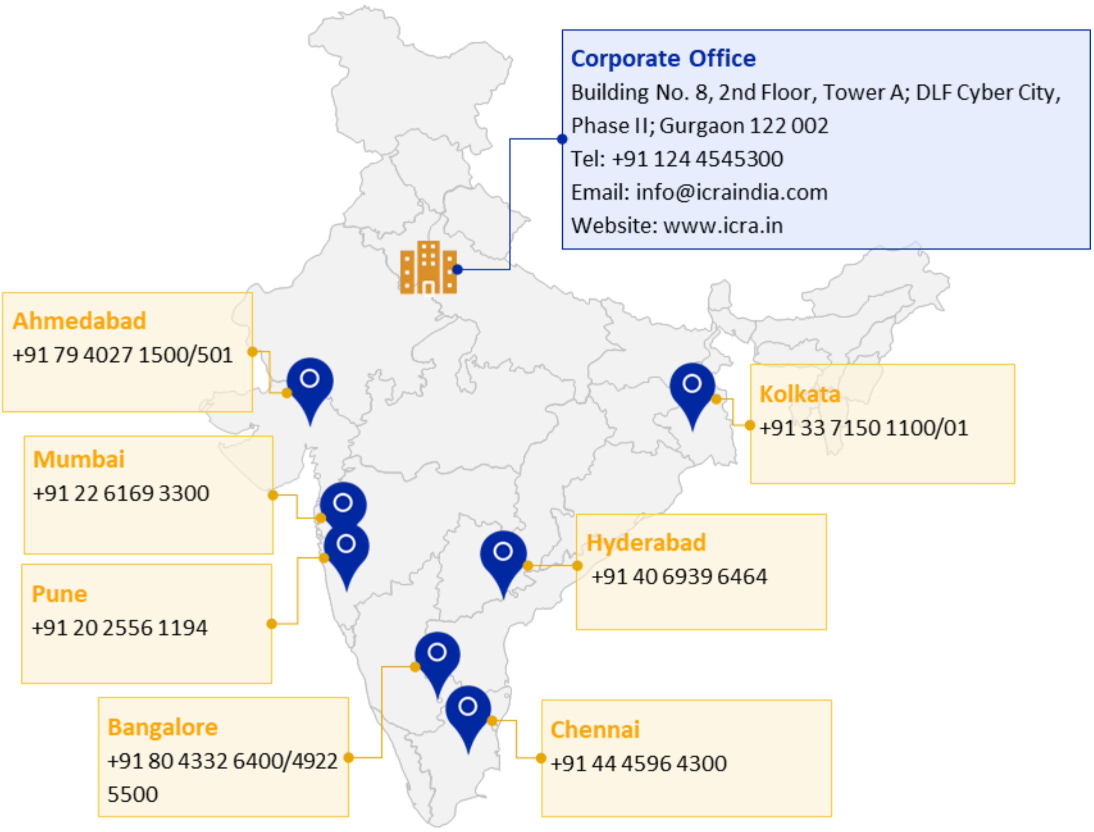

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