March 11, 2025

A.J. Mehta & Co. LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	16.0	16.0	[ICRA]BB+(Stable); reaffirmed
Long-term/Short-term – Unallocated	1.00	1.00	[ICRA] BB+(Stable)/ [ICRA]A4+; reaffirmed
Total	**17.00**	**17.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation of A.J. Mehta & Co. LLP (AJM) factors in the experience of the partners in the cut & polished diamond (CPD) industry, and its favourable financial profile, marked by limited reliance on external debt. The liquidity position of the firm also remains satisfactory, with the firm having cash and liquid investments of Rs. 17.8 crore as on January 31, 2025.

The ratings are, however, constrained by AJM's modest scale of operations and its thin operating profit margin (OPM), which additionally remain exposed to fluctuations in rough and polished diamond prices as well as foreign exchange movements. AJM reported a YoY revenue decline of 23% in FY2024 due to demand headwinds faced by the CPD industry, given the inflationary pressure across the globe. The demand conditions remain subdued in FY2025 as well, with the firm likely to witness a further contraction in revenues. The OPM, which stood at 8.1% in FY2024, is also likely to moderate in FY2025 with decline in revenues. Nonetheless, ICRA derives comfort from AJM's limited dependence on external debt.

The firm's working capital intensity of operations also remains high due to high inventory holding period. The ratings also remain constrained by the firm's high customer concentration. The firm remains susceptible to the risks associated with its status as a partnership firm, including the risk of capital withdrawal.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite an expected contraction in revenues due to global demand slowdown, AJM's credit profile is likely to remain comfortable, supported by its available cash and liquid investments, which will limit reliance on debt.

Key rating drivers and their description

Credit strengths

Extensive experience of partners; long track record of operations in cut and polished industry – AJM was established in 1966 as a partnership firm to manufacture and trade in CPDs. The firm is promoted by five partners, who collectively have more than five decades of domain experience.

Comfortable financial profile with limited reliance on external debt – The firm's reliance on external debt has remained low, with negligible utilisation in its working capital limits as the firm mainly relies on own its funds for the working capital requirement. The key personnels have infused unsecured funds of Rs. 6.8 crore as on March 31, 2024, to support working capital requirement. The firm's capital structure remains comfortable, marked by limited debt levels. The firm's gearing has remained low at 0.1 times, with total outside liabilities vis-à-vis the tangible net worth of 0.1 times as on March 31, 2024. The same is expected to continue as the firm has no plans to avail any external debt in the near term. Besides, the interest coverage ratio remained comfortable at 11.5 times as on March 31, 2024. While this would moderate in FY2025 due to demand headwinds, it will remain commensurate with the rating category.

Credit challenges

Modest scale of operations, revenue contraction amid demand headwinds in major consumption market – AJM's scale of operations remains modest, largely attributable to its niche product segment of fancy coloured and fancy cut diamonds. The diamond industry has faced a challenging year in FY2024 and YTD FY2025, with prices of polished goods falling significantly due to demand slowdown and a supply glut. Following this, AJM's revenue declined by 23% to Rs. 64.9 crore in FY2024, which is expected to moderate further by ~45% in FY2025, owing to a decline in sales and realisations.

High working capital intensity of operations mainly due to elevated inventory levels – The firm's working capital intensity of operations continues to remain high mainly due to high inventory holding period and debtor days. The former is on account of the specialised nature of these diamonds, including fancy cuts, fancy colours and odd sizes, which are usually slow-moving goods. The inventory holding period further increased in FY2024 and YTD FY2025 due to demand slowdown. The management, however, does not expect any write-offs and expects to liquidate this inventory in FY2026 as demand picks up. This remains a key monitorable.

Vulnerability of profitability to fluctuations in prices of diamonds and foreign exchange rates – AJM's OPM has remained moderate in the range of 7.8-8.1%, given the limited value addition. The firm's operations remain exposed to the volatility in rough and polished diamond prices. Any major fluctuation in the prices of these key inputs that cannot be fully passed on to the customers can impact the firm's profit margins. AJM also remains exposed to foreign exchange fluctuation risk as exports contributed ~29% to the firm's total sales in FY2024 and the risk is mitigated to some extent through a natural hedge provided by imports (~30% of the total purchases in FY2024). The firm also hedges 70% of its net exposure through forward contracts.

Inherent risk of being a partnership firm – ICRA notes that AJM is a limited liability partnership firm and any significant withdrawal from the capital account by the partners and the dissolution of the firm upon death, retirement, or insolvency of the partners could impact its net worth and hence, the capital structure.

Liquidity position: Adequate

The firm's liquidity position is adequate, supported by the headroom available in the form of undrawn working capital limits of Rs. 16 crore and cash and liquid investments (largely invested in mutual funds and equity instruments) of Rs. 17.8 crore as on January 31, 2025. The firm does not have any major capex plan or any term debt repayments in the near-to-medium term, which supports its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade AJM's ratings if the firm demonstrates a sustained improvement in its scale of operations while maintaining healthy profit margins and liquidity position.

Negative factors – Pressure on AJM's ratings could arise if a decline in revenues and/or profitability or a stretch in the working capital cycle weakens the liquidity position of the firm. Any large capital withdrawal, adversely impacting the firm's financial profile, could also be a negative factor. Sustained weakening of the interest cover to below 2.8 times could also result in ratings downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Cut and Polished diamond
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AJM was established in 1966 as a partnership firm by Mr. Jormalbhai Mehta. AJM was reconstituted in 2004 with the induction of Mr. Kerul Parikh and Mr. Samir Mehta as partners. The firm was converted into a limited liability partnership in April 2011. The firm was managed by four partners, Mr. Ashay Mehta, Mr. Samir Mehta, Mr. Anant Mehta and Mr. Kerul Parikh till March 31, 2021. Subsequently, a new partner, Mr. Ajay J Mehta, was inducted in the firm in September 2021.

AJM manufactures and trades in cut and polished diamonds. It specialises in processing rough diamonds into unique shapes, which are used in antique and boutique jewellery. The firm has expertise in manufacturing rose cuts, briolette, and oval-shaped diamonds.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	83.8	64.9
PAT	4.1	4.0
OPBDIT/OI	7.8%	8.1%
PAT/OI	4.8%	6.1%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	1.1	1.5
Interest coverage (times)	10.2	11.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th></th><th colspan="3">Current rating (FY2025)</th><th colspan="8">Chronology of rating history for the past 3 years</th></tr>
<tr><th></th><th></th><th></th><th></th><th colspan="2">FY2025</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Instrument</th><th>Type</th><th>Amount rated (Rs. crore)</th><th>Mar 11, 2025</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td>Fund-based-Cash credit</td><td>Long term</td><td>16.00</td><td>[ICRA]BB+ (Stable)</td><td>-</td><td>-</td><td>Feb-29-24</td><td>[ICRA]BB+ (Stable)</td><td>Dec-01-22</td><td>[ICRA]BB+ (Stable)</td><td>Jan-27-22</td><td>[ICRA]BB (Stable)</td></tr>
<tr><td>Unallocated</td><td>Long term and short term</td><td>1.00</td><td>[ICRA]BB+ (Stable)/ [ICRA]A4+</td><td>-</td><td>-</td><td>Feb-29-24</td><td>[ICRA]BB+ (Stable)/ [ICRA]A4+</td><td>Dec-01-22</td><td>[ICRA]BB+ (Stable)/ [ICRA]A4+</td><td>Jan-27-22</td><td>[ICRA]BB (Stable)/ [ICRA]A4+</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund Based - Cash credit	**Simple**
Long term/Short term-Unallocated	**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	Long-term Fund based- Cash Credit	-	-	-	16.00	[ICRA]BB+ (Stable)
NA	Unallocated	-	-	-	1.00	[ICRA]BB+(Stable)/[ICRA]A4+

Source: Company

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

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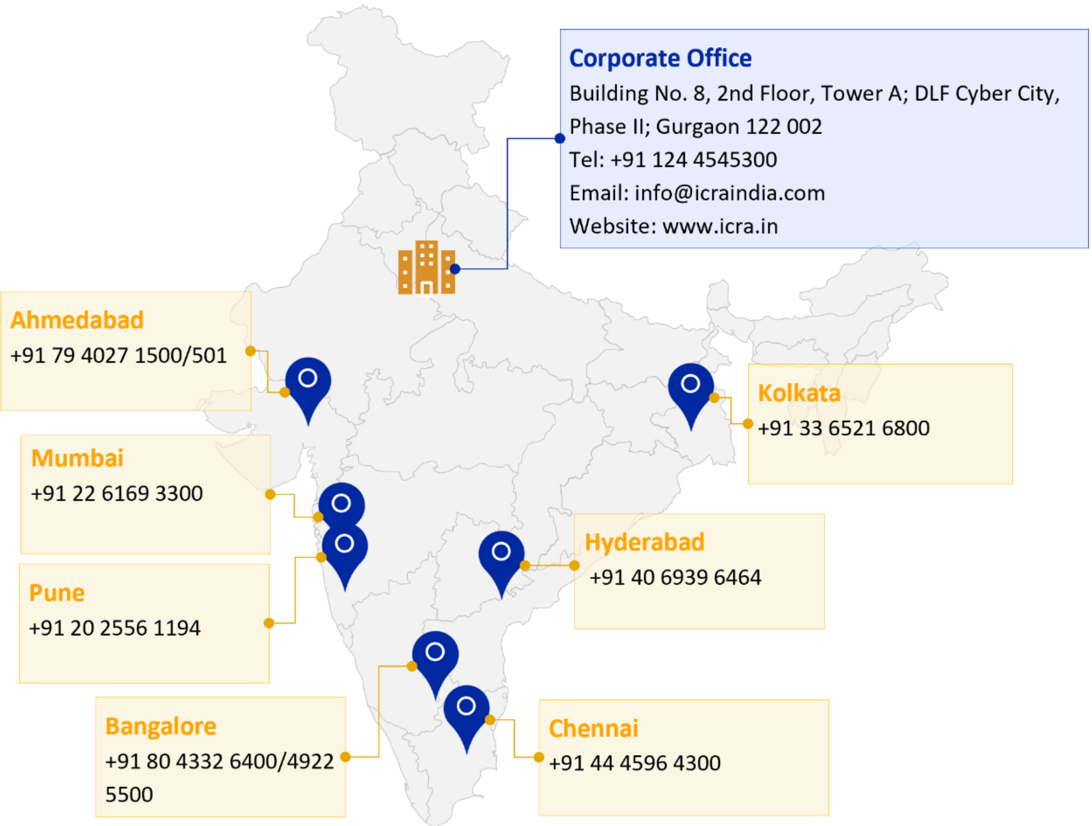

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