March 05, 2021

C. J. Exporters: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Foreign bills discount	90.00	90.00	[ICRA]A4+; Reaffirmed and removed from rating watch with negative implications
Export Packing Credit (EPC)(Sublimit of Foreign bills discount)	(18.00)	(36.00)	[ICRA]A4+; Reaffirmed and removed from rating watch with negative implications
PCFC (Sublimit of Foreign bills discount)	(90.00)	(90.00)	[ICRA]A4+; Reaffirmed and removed from rating watch with negative implications
Direct Export (Sublimit of Foreign bills discount)	(90.00)	-	-
Group Export (Sublimit of Foreign bills discount)	(18.00)	-	-
Total	**90.00**	**90.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating of CJ Exporters (CJE) has been reaffirmed and removed from watch with negative implications, given the relatively controlled receivables position, which has enabled the firm to reduce its dependence on working capital borrowings. ICRA also noted a part turnaround in the firm's sale velocity since September 2020 due to the improving demand condition in the key export markets of Hong Kong and USA, mainly for smaller carat polished diamonds. Nevertheless, the firm remains saddled with high inventory levels from unfavourable sales realisations in the past due to challenging market conditions. However, a moderation is expected in the near term, given the recent pick-up in export sales witnessed in the major consuming markets, which would be a key monitorable. ICRA also notes the high dependence on creditor funding to meet working capital requirements. The rating reaffirmation continue to factor in the factor in the extensive experience of CJE's partners in the cut and polished diamonds (CPD) industry, its established marketing and distribution arms in key export markets, and its sourcing arrangements with miners and related parties, which ensures uninterrupted supply of rough diamonds.

The rating, however, remains constrained by the susceptibility of CJE's profitability to volatile raw material prices (roughs) as well as foreign exchange (forex) fluctuation risks as it exports a significant portion of the polished diamonds. However, the presence of a natural hedge (import of rough diamonds) and forward contract bookings partly mitigate the forex risk. The rating is further constrained by the competition in the CPD business from organised as well as unorganised players, and the risk of capital withdrawal inherent in partnership firms, which could have a material impact on its credit quality.

Key rating drivers and their description

Credit strengths

Extensive domain experience of partners in diamond industry; support from professional management setup – CJE manufactures and exports small to large-sized diamonds in the range of 0.01–3 carats. The firm benefits from the vast experience of its promoters in the diamond industry, along with a professional management setup with extensive experience in the CPD industry.

Strong supplier network – CJE has an established sourcing arrangement with Dominion Diamonds. Further, a recent tie-up with Alrosa is likely to ensure a steady supply of roughs at competitive rates, going forward.

Diversified and large customer base across various countries with timely realisation of payments – CJE's client profile has primarily remained steady with many repeat customers, while there have been new customer additions in the local as well as international markets. In FY2020, the firm derived ~25% of its sales through its overseas channel partners in Hong Kong and Belgium. In addition, it has started diversifying its product profile and increased its exposure in existing markets. Despite the operational difficulties after the outbreak of the pandemic, the firm has managed to keep its receivables under check. CJE has recovered most of its outstanding payments as on March 31, 2020. As on December 31, 2020, out of the total outstanding debtors, 74% was outstanding for less than 90 days, 25% from 91-150 days and the rest for up to 180 days. The firm just has 1% outstanding over 180 days.

Credit challenges

High working capital-intensive operations due to slow moving inventory – The firm's working capital intensity depicted by NWC/OI reflected an increase to 49% in FY2020 from 37% in FY2019. This was due to high inventory levels maintained by the firm on a lower revenue base, which was severely impacted by the pandemic in Q4 FY2020. The inventory levels of CJE usually remain high as it holds inventory of polished diamonds till it receives favourable realisation from the market. The overall slowdown in the market post the pandemic outbreak has led to slow moving inventory, which is about two months' higher than normal for polished diamonds and one month higher than average for roughs. While a small component of sourcing of rough diamonds from reputed DTC sightholders and miners is on tight credit terms, most of the sourcing of rough diamonds is conducted from a family-owned concern in Antwerp, which extends a comfortable credit period to CJE. The firm stretched its creditor days to 121 days in FY2020 from 112 days in FY2019, to partially fund its working capital needs. The creditor position continues to remain stretched as on February 20, 2021. While ICRA draws comfort from the firm's ability to keep a check on its external borrowings despite continuing high working capital intensity, the company's ability to maintain a steady revenue performance and efficiently manage its working capital cycle over the next few quarters will remain critical from the credit perspective.

Challenging business environment in past and pandemic induced disruption in the current fiscal have resulted in pressure on sales and revenues – The CPD industry is characterised by a persistent slowdown in demand in the key export markets, putting pressure on sales volume as reflected by a decline by 17% in the scale of operations to Rs. 216.7 crore in FY2020 from Rs. 260.5 crore in FY2019. While the volumes were impacted by 24%, the realisation was 9% higher on account of increase in sales of higher carat diamond, which fetched better realisations. Further, the Covid-19 induced lockdown and supply restrictions resulted in a steep decline in revenues, which stood at Rs. 84 crore in 9M FY2021 which is notably lower than the previous year. However, with the easing of lockdown restrictions and gradual opening of economic activities, the sales velocity picked up since September 2020 and the firm targets to achieve higher sales in Q4 FY2021.

Margins susceptible to currency fluctuations and rough diamond prices – As inherent in the CPD industry, the firm's operating profit margin has remained relatively weak. Nevertheless, it has marginally improved to 4.1% in FY2020 from 3.7% in FY2019 following reduction in the raw material consumption cost and an increase in forex earnings. Moreover, the sluggish margin is attributable to existing wide disparity between polished and rough diamond prices. CJE's operations are exposed to the volatility in rough diamond prices and the stiff competition in the industry, which affect its pricing flexibility to a large extent.

Inherent risk associated with partnership entities – The firm is exposed to the risk of withdrawal of capital by the partners, which could impact the capital structure. However, the firm introduced capital of ~Rs. 17 crore, which has supported its capital structure and improved the gearing to below 0.9x as on March 31, 2020 from 1.5x as on March 31, 2018.

Stiff competition from organised and unorganised players as inherent in CPD industry – CJE not only faces stiff competition from dominant unorganised players, but also from a few well-established, organised players, which are similar in scale and size. This exerts pricing pressure.

Liquidity position: Adequate

ICRA assesses CJE's liquidity position to remain adequate as a result of improved profitability, which translates into healthy net cash accruals. The firm has limited long-term debt repayment obligations, and the net cash accruals are sufficient to meet the same. Further, despite a sizable amount of inventory, CJE was able to manage its working capital needs effectively, with unutilised limits of ~Rs. 55 crore as on December 31, 2020. Moreover, despite the expected pressure on revenues and profitability in the currency year, due to the Covid-19 pandemic, the liquidity would be sufficient for covering the repayment liabilities and fixed cost over the near-term.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to register significant growth in revenues and its profitability margins while efficiently managing its working capital cycle on a sustained basis.

Negative factors – Negative pressure on the rating could arise if there is a higher than anticipated decline in revenues that impacts the profitability, or further stretch in receivable cycle or a further inventory build-up impacting the firm's liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Gems & Jewellery Industry – 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

Established in 1966, CJE started as a partnership firm promoted by Mr. Shirish S. Jhaveri. In 1995 and 1998, Mr. Mitul Jhaveri and Mr. Somil Jhaveri, respectively, became partners in CJE. The firm cuts and polishes diamonds of small to large sizes in various shapes and colours. CJE's manufacturing facilities in Mumbai and Surat are equipped with the latest diamond sorting machines and laser cutting equipment.

In FY2020, the company reported a profit after tax (PAT) of Rs. 0.7 crore on an OI of Rs. 216.7 crore, over a PAT of Rs. 1.3 crore on an OI of Rs. 260.5 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	269.8	260.5	216.7
PAT (Rs. crore)	-0.9	1.3	0.7
OPBDIT/OI (%)	3.3%	3.7%	4.1%
RoCE (%)	5.3%	5.7%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	1.8	1.7
Total Debt/OPBDIT (times)	9.2	5.8	6.9
Interest Coverage (times)	1.3	1.5	1.8
DSCR (times)	1.3	1.6	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 05, 2021	Mar 03, 2020	Oct 04, 2018	May 23, 2017
1	Foreign bills discount	Short Term	90.00	-	[ICRA]A4+	[ICRA]A4+@	[ICRA]A4+	[ICRA]A4+
2	Export Packing Credit (EPC)(Sublimit of Foreign bills discount)	Short Term	(36.00)		[ICRA]A4+	[ICRA]A4+@	[ICRA]A4+	[ICRA]A4+
3	PCFC (Sublimit of Foreign bills discount)	Short Term	(90.00)		[ICRA]A4+	[ICRA]A4+@	[ICRA]A4+	[ICRA]A4+

@: rating watch with negative implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Foreign bills discount				90.00	[ICRA]A4+
NA	Export Packing Credit (EPC)(Sublimit of Foreign bills discount)				(36.00)	[ICRA]A4+
NA	PCFC (Sublimit of Foreign bills discount)				(90.00)	[ICRA]A4+

Source: *CJE*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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