July 04, 2022

Dharmanandan Diamonds Private Limited: Long-term rating upgraded to [ICRA]A(Stable) and short-term rating reaffirmed at [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term: Fund-based Limits	1355.16	1490.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable); [ICRA]A2+; reaffirmed
Long-term/Short-term: Unallocated Limits	269.84	135.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable); [ICRA]A2+; reaffirmed
Total	**1625.00**	**1625.00**	

Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating considers the improvement in the financial profile of Dharmanandan Diamonds Private Limited (DDPL) in FY2022, which is expected to sustain in FY2023. The cut and polished diamond (CPD) industry witnessed a healthy demand for polished diamonds in FY2022, supported by strong retail offtake from the key consuming markets. The company reported a YoY revenue growth of 65% in FY2022 which alongwith improved working capital management led to an improvement in the overall financial profile of the company. Notwithstanding the near-term headwinds in the form of global inflationary pressure, DDPL's credit profile is expected to remain comfortable, supported by its healthy net worth position, prudent working capital management and limited capital expenditure (capex) requirements.

The ratings continue to draw comfort from the extensive experience of DDPL's promoters in the Indian (CPD) industry, its established relationships with customers and its status as one of the leading players in the Indian polished diamond industry. Apart from being a De Beers sight holder, the company enjoys direct supply of rough diamonds from other leading global mining companies such as Rio Tinto Diamonds and Dominion Diamond Corporation, assuring a steady supply of rough diamonds. The ratings continue to factor in DDPL's established distribution network in the key consuming markets along with the growing presence in the e-commerce and mobile-based application space, providing easy access to the global market.

The ratings, however, remain constrained by DDPL's working capital intensive nature of operations primarily on account of its high inventory holding period. DDPL remains exposed to adverse fluctuations in rough diamond prices and stiff competition from the unorganised as well as organised players. The company's profitability also remains susceptible to the foreign exchange fluctuation risks due to its export-dominated revenue profile, though a natural hedge through import of rough diamonds and hedging via forward contracts mitigate the risk to a large extent.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that DDPL's credit profile is expected to remain comfortable, supported by prudent working capital management as well as the extensive experience of the promoters in the CPD industry.

Key rating drivers and their description

Credit strengths

One of the leading CPD exporters from India with a good market standing; well-established distribution network – DDPL is the flagship company of the Dharmanandan Group, which has established itself as one of the leading exporters of CPDs from India. The company, which was primarily involved with the processing of CPDs, has gradually forward integrated its operations into manufacturing diamond-studded jewellery, though the contribution of the latter remains modest at present. With Rs. 6,740 crore generated collectively from DDPL's CPD and jewellery divisions in FY2022, the company is one of the largest players in this industry. In the international market, DDPL has a strong distribution network in place through its associate/step-down subsidiaries in key consuming markets like Hong Kong, the US and Belgium. The company also launched an online portal in 2009, which marked its entry into the ecommerce space. It has also developed a mobile-based instant messaging guidebook to assist clients with the diamond inventory. The online store has a registered user base of more than 2,500 customers and constituted ~15% of DDPL's total sales in FY2022.

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, only a few entities across the globe have direct access to the rough supply due to stringent qualification requirements of the miners. DDPL features among these top global entities and is a sightholder with De Beers. This lends competitiveness to the company's operations in the form of steady supply of quality roughs at competitive prices.

Improved financial profile led by strong demand conditions in FY2022 – The CPD industry witnessed a strong recovery in sales from H2 FY2021, led by improved demand in the export markets, after witnessing a significant contraction in Q4 FY2020 and H1 FY2021 due to the adverse impact of the pandemic. The demand for polished diamonds remained healthy in FY2022 given the strong recovery in retail offtake from the key consuming markets owing to fiscal stimulus announced by the governments, improving economic outlook, pent-up demand, and slower-than-anticipated return to other luxuries, among others. The company reported revenues of Rs. 6,740 crore in FY2022 against Rs. 4,082 crore reported in FY2021, reflecting a growth of 65%. While the OPM declined to 4.1% in FY2022 from the historical levels of 4.3-5.0% due to high rough prices and increased job work expenses, the profits increased in absolute terms. Coupled with improved working capital management, this led to an improvement in the overall financial profile of DDPL. The interest coverage improved to 5.8 times in FY2022 from 3.1 times in FY2021 due to an increase in the operating profitability, reduction in the benchmark lending rates and reduced receivable cycle. The gearing stood comfortable at 0.9 times as on March 31, 2022, against 1.0 time as on March 31, 2021, despite high bank limit utilisation during the year-end as the company accumulated inventory. Going forward, despite expectation of moderation in revenues and profitability due to the impact of global inflationary pressure, the overall financial profile is expected to remain comfortable. This would be aided by healthy net worth position of the company, prudent working capital management and limited capex requirements.

Credit challenges

High working capital intensity of operations – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income (NWC/OI), remains high in the range of 40-50% primarily due to its high inventory holding period. ICRA notes that DDPL's working capital intensity of operations improved to 39% as on March 31, 2022, on account of reduced receivable cycle. However, the inventory levels were high during year-end due to stocking of rough and polished diamonds given the strong demand momentum in the industry. Going forward, timely recovery of receivables and liquidation of inventory remain critical from the credit perspective and would remain a key monitorable.

Revenues and profitability susceptible to foreign currency movements though a natural hedge provides comfort – Around 80-90% of DDPL's revenues is denominated in foreign currency (primarily US dollar). Hence, the company is exposed to adverse fluctuations in the currency markets. However, a natural hedge resulting from the import of rough diamonds, packing credit in foreign currency and forward contracts provide protection against exchange rate fluctuations to an extent. The company is also exposed to adverse fluctuations in the prices of rough and polished diamonds.

Industry characterised by intense competition from unorganised and organised players - The diamond industry is fragmented, with low value addition and intense competition. DDPL faces intense competition from the unorganised players as well as from a few established organised players, which limits its pricing power. However, the company's established presence in the industry for more than three decades and its diverse product offerings helped DDPL develop healthy business relationships with its customers as well as its suppliers.

Liquidity position: Adequate

DDPL's liquidity position is **adequate** supported by free cash and bank balance of Rs. 55.8 crore and cushion available in the form of undrawn working capital limits of Rs. 123.1 crore as on March 31, 2022. DDPL's average utilisation of working capital limits during the 12-month period ended on April 30, 2022, stood at 89% (reflecting an average unutilised limit of Rs. 153.9 crore during the said period with adequate drawing power). The cash flow generation is expected to remain healthy in FY2023. DDPL's debt profile, like most CPD entities, is short-term in nature for meeting its working capital requirements. There are no major capex requirements in 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 sustained increase in the scale of operations and profitability, resulting in an improvement in DDPL's credit metrics and liquidity position. An improvement in the interest cover to over 6.0 times on a sustained basis will be a positive factor.

Negative factors – Pressure on DDPL's ratings could arise if there is a decline in its earnings or a stretch in the working capital cycle, resulting in a deterioration in its financial profile and/or the liquidity position. Specific credit metric that could lead to ratings downgrade includes interest cover remaining below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for 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

DDPL is a leading Indian diamond manufacturing company headquartered in Mumbai, Maharashtra, with manufacturing facilities in Surat, Gujarat. DDPL mainly cuts and polishes quality diamonds and sells to retailers and jewellers across the globe, either directly or through its various group entities. The company manufactures diamonds in various shapes and sizes, ranging from 0.01 carat to 10 carat and above and distributes its products through its associate companies in Hong Kong, the US and Belgium. Consumers can also buy diamonds and jewellery online through DDPL's website.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	4,082.2	6,740.1
PAT (Rs. crore)	75.7	161.9
OPBDIT/OI (%)	4.3%	4.1%
PAT/OI (%)	1.9%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.9
Total Debt/OPBDIT (times)	8.2	5.1
Interest Coverage (times)	3.1	5.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: DDPL, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument		Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					04-Jul-2022	05-Jul-2021	15-Oct-2020	03-Sep-2020	05-Mar-2020
1	Fund-based Limits	Long-term / Short-term	1490.00	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A-@/ [ICRA]A2+
2	Unallocated Limits	Long-term / Short-term	135.00	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A-@/ [ICRA]A2+

@: placed on watch with negative implications

Complexity level of the rated instrument

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, is available on ICRA's website: www.icra.in

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	Fund-based Limits	-	-	-	1490.00	[ICRA]A(Stable)/[ICRA]A2+
NA	Unallocated Limits	-	-	-	135.00	[ICRA]A(Stable)/[ICRA]A2+

Source: *DDPL*

Annexure-2: 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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