

Dharmanandan Diamonds Private Limited

Bank Limits	Amounts (Rs.crore)	Rating
Fund-Based facilities		[ICRA]A (Negative)/ [ICRA]A1
Export Packing Credit/ Post Shipment Credit: Fund-Based Limits	1423.16 (previously Rs. 1358.16 crore)	
Unallocated Amount	201.84 (previously Rs. 266.84 crore)	
Total	1625.00	

ICRA has re-affirmed the long-term rating at [ICRA]A (pronounced ICRA A) and the short-term rating at [ICRA]A1 (pronounced ICRA A one) for the Rs. 1423.16-crore¹ (previously Rs. 1358.16-crore) fund-based working capital facilities and Rs. 201.84-crore (previously Rs. 266.84-crore) unallocated limits of Dharmanandan Diamonds Private Limited (DDPL or the company)². The outlook on the long-term rating has been revised from stable to negative.

The revision in outlook reflects the de-growth in operating income and weakening of profitability in FY2016, attributable to the difficult conditions in the cut and polished (CPD) market characterised by disproportionate movement in rough diamond and polished diamond prices and demand slowdown from key consuming hubs in FY2016. This has also led to an elongation in DDPL's working capital cycle, arising from slow realisation from debtors and rise in inventory levels in FY2016. Also as on March 31, 2016, despite an improvement in the capital structure, the coverage indicators have deteriorated due to moderation in operating profits and net cash accruals. The ratings also take note of the susceptibility of business operations to the demand conditions in the key export markets as well as movements in foreign exchange rates, although the forex risk is partly mitigated through hedging by booking forward contracts. The ratings are also constrained by the high competitive intensity in the CPD business.

The ratings, however, continue to reflect the vast experience of the promoters and the directors in the diamond industry, supported by a professional management setup, established relationships with customers and the company's status as one of the leading players in the Indian polished diamond industry. Over the years the company has developed a well established distribution network and it also has a presence in the e-commerce and mobile-based application space providing easy access to the global market. Further, the ratings continue to factor in the company's large operating base, resulting in economies of scale and the benefits accrued by virtue of its status as a DTC sight holder and its recent association with Alrosa, a diamond mining major which provides comfort on sourcing arrangements.

Going forward the growth in operating income will be dependent on the company's ability to diversify its presence in new markets and a pick-up in demand from the traditional markets like Hong Kong, Belgium and the USA. The company's ability to effectively pass on the rise in rough diamond prices to customers and optimise costs through better operational efficiency, and improvement in working capital management so as to improve its capital structure would remain the key rating sensitivities. Conversely, moderation in operating income in the backdrop of softening polished diamonds prices, lower-than-expected profitability or a further stretch in the working capital cycle, will result in a deterioration in the financial risk profile and will have a negative impact on the key credit metrics.

About the Company

Promoted by Mr. Laljibhai Patel and Mr. Tulsibhai Patel, Dharmanandan Diamonds Private Limited (DDPL or the company) commenced business as a partnership firm (erstwhile Dharmanandan Diamonds) in 1980. Subsequently, in August 2007, it was incorporated as a private limited company. In December 2007, DDPL acquired the status of the DTC sight holder; a status attained by only a few companies the world over.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

DDPL was exclusively into the business of manufacturing and exporting polished diamonds till it diversified its business into manufacturing diamond studded jewellery in 2008. The company has two cut and polished diamond (CPD) processing units at Gotalawadi, Surat (Gujarat) and a high value diamond processing and jewellery manufacturing unit in the Special Economic Zone (SEZ), Surat (Gujarat).

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