

February 07, 2017

## Ankit Diamonds

| Instrument*                   | Amount Rated<br>(Rs. crore) | Rating Action       |
|-------------------------------|-----------------------------|---------------------|
| Short Term - Fund-based Limit | 50.00                       | [ICRA]A4 / Assigned |
| Short Term - Interchangeable  | (25.50)                     | [ICRA]A4 / Assigned |
| <b>Total</b>                  | <b>50.00</b>                |                     |

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 50.00-crore<sup>1</sup> bank facility of Ankit Diamonds ('AD' or 'the firm')<sup>2</sup>.

### Detailed Rationale

The rating factors in AD's weak financial profile, characterised by thin profitability, weak coverage indicators and highly working capital intensive nature of operations due to elongated receivables and high inventory holding. The profit margins are exposed to the adverse movements in the prices of rough diamonds and foreign exchange rates; although hedging through forward covers mitigates the forex risk to some extent. The diamond industry is also characterised by stiff competition from players in the unorganised as well as organised sector, which further pressurises the profit margins.

The ratings, however, favourably factor in over three decades of the promoters' experience in the cut and polished diamond (CPD) industry. Going forward, the firm's ability to sustain in a highly competitive CPD industry, while effectively managing its working capital position, would remain the key rating sensitivities. The profitability of the firm would remain vulnerable to fluctuations in prices of polished diamonds and foreign exchange rates.

### Key rating drivers

#### Credit Strengths

- Experienced promoters with nearly three decades in the CPD business.

#### Credit Weaknesses

- Thin profitability due to low value addition and fragmented nature of industry characterised by stiff competition from organised and unorganised players;
- Highly working capital intensive nature of business following elongated receivables and high inventory holding period, which adversely impacts its liquidity profile and tight liquidity evident from almost full utilisation of bank limits;
- Leveraged capital structure and weak coverage indicators.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

**Description of key rating drivers highlighted above**

Ankit Diamonds is promoted by Mr. Kirit Shah and Mr. Rikin Shah, who have an experience of more than 15 years in the CPD business. The firm is engaged in manufacturing and trading cut and polished diamonds. In FY2015 and FY2016, due to increase in the proportion of trading of low value diamonds, limited value addition and intense competition inherent in the industry has resulted in modest margins.

The firm's liquidity position remained stretched, as evident from NWC/OI of 40% in FY2016 following sluggishness in realisation of receivables, coupled with high level of inventory necessitating increased utilisation of working capital limits. Consequently, the capital structure of the firm is leveraged with a gearing of 1.73 times as on March 31, 2016. The coverage indicators measured by OPBDITA / Interest and Finance Charges, while Total Debt/OPBDITA remained weak at 0.95 time and 18.04 times, respectively, as on March 31, 2016, because of low profitability and high debt levels.

The revenues of AD are mainly export driven. Its revenues are geographically clustered with Hong Kong and USA contributing 69% and 64% to total sales in FY2015 and FY2016, respectively. Furthermore, due to its constitution as a partnership firm, any significant withdrawals from the partner's capital account could adversely impact the firm's credit profile. Going forward, the firm's ability to increase its scale of operations and improve its profitability, while effectively managing its working capital requirements, will be the key rating sensitivities.

**Analytical approach**

To arrive at the ratings, ICRA has performed a detailed evaluation of the issuer's business and financial risks.

**Links to applicable criteria**

[Corporate Credit Rating – A Note on Methodology](#)

[Rating Methodology for Indian Gems & Jewellery Industry – Cut & Polished Diamonds](#)

**About the Company**

Promoted by Mr. Kirit Shah and Mr. Rikin Shah, AD was established as a partnership firm in 1983. It is engaged in the manufacturing and trading of cut and polished diamonds in domestic as well as international markets. AD's product range comprises diamonds of various sizes ranging from 5 cents to 3 carats. The firm's registered office is in Mumbai, its marketing office in Hong Kong, and manufacturing facility in Surat (Gujarat). The firm has a group concern, M/s Baldovino (rated [ICRA]A4 in December 2016), which is also engaged in the manufacturing and trading of cut and polished diamonds.

AD recorded a net profit of Rs. 0.99 crore on an operating income of Rs. 161.21 crore for the year ending March 31, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

### Rating history for the last three years

**Table: Rating History**

| S. No | Name of Instrument | Current Rating (2017) |                          |                      | Chronology of Rating History for the past 3 years |                               |                               |
|-------|--------------------|-----------------------|--------------------------|----------------------|---|-------------------------------|-------------------------------|
|       |                    | Type                  | Rated amount (Rs. crore) | Month-year & Rating  | Month-year & Rating in FY2016                     | Month-year & Rating in FY2015 | Month-year & Rating in FY2015 |
|       |                    |                       |                          | <b>February 2017</b> | <b>August 2015</b>                                | <b>August 2014</b>            | <b>May 2014</b>               |
| 1     | FDBP/FUDBP/A FDBC  | Short-term            | 50.00                    | [ICRA]A4             | [ICRA]A4 Suspended                                | [ICRA]A4                      | [ICRA]A4 Suspended            |
| 2     | Direct Bills*      | Short-term            | (22.50)                  | [ICRA]A4             | [ICRA]A4 Suspended                                | [ICRA]A4                      | [ICRA]A4 Suspended            |
| 3     | Packing Credit*    | Short-term            | (3.00)                   | [ICRA]A4             | [ICRA]A4 Suspended                                | [ICRA]A4                      | [ICRA]A4 Suspended            |

\*Sublimit of FDBP/FUDBP/AFDBC

### 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 [www.icra.in](http://www.icra.in)

## Annexure-1

### Details of Instrument

| <b>Name of the instrument</b> | <b>Date of issuance</b> | <b>Coupon rate</b> | <b>Maturity Date</b> | <b>Size of the issue (Rs. crore)</b> | <b>Current Rating and Outlook</b> |
|-------------------------------|-------------------------|--------------------|----------------------|--------------------------------------|-----------------------------------|
| FDBP/FUDBP/A<br>FDBC          | -                       | -                  | -                    | 50.00                                | [ICRA]A4                          |
| Direct Bills*                 | -                       | -                  | -                    | (22.50)                              | [ICRA]A4                          |
| Packing Credit*               | -                       | -                  | -                    | (3.00)                               | [ICRA]A4                          |

\*Sublimit of FDBP/FUDBP/AFDBC

Source: Ankit Diamonds

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About ICRA Limited:

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