

Ankit Diamonds

July 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (₹ crore)	Current Rated Amount (₹ crore)	Rating Action
Fund based-Working Capital Facility	50.00	50.00	[ICRA]D/Downgraded from [ICRA]A4
Fund based- Working Capital Facilities**	(25.50)	(25.50)	[ICRA]D/Downgraded from [ICRA]A4
Total	50.00	50.00	

*Instrument details are provided in Annexure

**Sub-limit of fund based- working capital facility

Rating action

ICRA has downgraded the short-term rating from [ICRA]A4 (pronounced ICRA A four) to [ICRA]D (pronounced ICRA D) assigned to the ₹ 50.00-crore¹ bank facilities of Ankit Diamonds ('AD' or 'the firm')².

Rationale

The revision in rating takes into account the instances of delays witnessed in payment to the lender in the last six months. The rating is also constrained by the firm's weak financial risk profile characterised by leveraged capital structure, weak coverage indicators and high working capital intensity of operations, due to elongated receivables and high inventory holding. The profit margins are exposed to 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 cut and polished diamond (CPD) industry is characterised by stiff competition from players in the unorganised as well as organised sectors, which further pressurises the profitability.

The rating, however, favourably considers the extensive experience as well as long track record of the promoters in the cut and polished diamond industry as well as the marketing and operational support received from its group concern, Ankit Diamonds.

Going forward, the company's ability to efficiently manage the working capital requirements and improve its profitability so as to service its debt obligations in a timely manner would constitute the key rating sensitivity factors.

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

Outlook: Not applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in the cut and polished diamonds industry - AD manufactures and trades in different kinds of cut and polished diamonds which are majorly exported to the markets of Hong Kong, USA, UAE and Belgium. The promoters of the firm – Mr. Rikin Shah and his father Mr. Kirit Shah have extensive experience in this line of business and collectively manage its operations.

Credit challenges

Delays witnessed in payment, as confirmed by the lender—There were delays in payment to the bank as confirmed by the lender, on account of stretched liquidity position arising out of delay in realization of debtors. The receivables of the company remained stretched at 146 days as on March 31, 2018, increased from 121 days as on March 31, 2017.

High working capital intensity due to slow debtor realisation and high inventory levels—The average credit period extended by the company to its clients ranges between 120 to 180 days. The credit period availed from suppliers ranges from 90 to 120 days. The firm maintains an inventory of around 90 days. The debtor days, continue to remain high at 146 days in FY2018 on account of the extended credit period offered to some of its customers. The working capital intensity remained high at 33% as on March 31, 2018, as against 27% as on March 31, 2017 on account of slow debtor realisations.

Leveraged capital structure and weak coverage ratios— Even though there was infusion of capital by the partners in FY2018, the capital structure was leveraged in absolute terms, with a gearing of 1.59 times as on March 31, 2018. The gearing decreased from 2.14 times as on March 31, 2017. Due to moderate profitability, the coverage indicators have also remained moderate to weak, as reflected by OPBDITA/Interest and Total Debt/OPBDITA ratio of 2.27 times and 9.89 times respectively in FY2018.

Vulnerability to forex risk mitigated to a great extent by natural hedge and forward contracts— Ankit Diamonds generates majority of its sales through exports (around 87% in FY2018). As a substantial part of its revenues is denominated in foreign currency, the firm is exposed to the vagaries of currency markets. However, the natural hedge arising from the import of rough diamonds provide protection against exchange rate fluctuations to a certain extent. AD also enters into forward contracts for exports so as to reduce risk arising due to foreign exchange fluctuation. Exports stood at ₹ 179.00 crore in FY2018 as against ₹ 25.43 crore of imports. The firm recorded net forex loss of ₹ 0.03 crore in FY2018.

Diamond industry characterised by intense competition from organised and unorganised players—The diamond industry is fragmented, with low value addition, and is characterised by severe competition. AD not only faces a stiff competition from the unorganised players, but also from a few well established organised players that are similar in scale and size. By virtue of its group concern, Ankit Diamonds, in the diamond industry for over 30 years along with established branch office at Hong Kong, the firm has generated good business relationships both on the customer as well as the supplier fronts.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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

[Policy on Default Recognition](#)

About the company

Promoted by Mr. Kirit Shah along with his son, Mr. Rikin Shah, Ankit Diamonds is a partnership firm in, established 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 and its manufacturing facility is in Surat (Gujarat).

The firm has a group concern, Baldovino (rated [ICRA]D in July 2018), which is also engaged in similar line(s) of business.

AD recorded a net profit of ₹ 1.31 crore on an operating income of ₹ 204.61 crore for the year ending March 31, 2018 (provisional numbers).

Key financial indicators

	FY 2016 Audited	FY 2017 Audited
Operating Income (₹ crore)	161.21	188.17
PAT (₹ crore)	0.99	(0.45)
OPADITA/ OI (%)	1.64%	2.17%
RoCE (%)	5.68%	2.59%
Total Debt/ TNW (times)	1.73	2.14
Total Debt/ OPBDITA (times)	18.04	14.11
Interest coverage (times)	0.95	1.61

OPADITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;

NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth

Source: Financial statements of AD and ICRA research

Status of non-cooperation with previous CRA: CRISIL Limited, vide its press release dated September 1, 2017 stated that it has been consistently following up with Ankit Diamonds for obtaining information through letters and emails dated March 15, 2017 and April 11, 2017 among others, apart from telephonic communication. However, the issuer has remained non cooperative. Based on the last available information, CRISIL has downgraded the ratings to 'CRISIL B/Stable/CRISIL A4'.

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (₹ crore)	Amount Outstanding (₹ crore)	Date & Rating July 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 February 2017	Date & Rating in FY2016 August 2015
1 FDBP/FUDBP/AFDBC	Short-term	50.00	-	[ICRA]D	-	[ICRA]A4	[ICRA]A4 Suspended
2 Direct Bills ^	Short-term	(22.50)	-	[ICRA]D	-	[ICRA]A4	[ICRA]A4 Suspended
3 Packing Credit^	Long-term	(3.00)	-	[ICRA]D	-	[ICRA]A4	[ICRA]A4 Suspended

[^]Sub-limit of FDBP

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

Annexure: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (₹ crore)	Current Rating and Outlook
NA	FDBP/FUDBP/AFUBC	-	-	-	50.00	[ICRA]D
NA	Direct Bills ^	-	-	-	(22.50)	[ICRA]D
NA	Packing Credit^	-	-	-	(3.00)	[ICRA]D

^Sub-limit of Letter of FDBP

Source: Ankit Diamonds

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Rupa Pandey

+91 22 6114 3456

rupa.pandey@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Srideep Datta

+91 22 6114 3451

srideep.datta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents