

November 01, 2019

M. B. Polishing Works: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term: Post Shipment Credit	20.00	20.00	[ICRA]BB+ (Stable)/[ICRA]A4+; Reaffirmed
Long-term / Short-term: Export Packing Credit**	(6.00)	(6.00)	[ICRA]BB+ (Stable)/[ICRA]A4+; Reaffirmed
Long-term / Short-term: PCFC ^{1**}	(20.00)	(20.00)	[ICRA]BB+ (Stable)/[ICRA]A4+; Reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

** sub-limit under Post Shipment Credit

Rationale

The rating reaffirmation takes into account the extensive experience of the promoters of M.B. Polishing Works (MBPW) spanning over three decades in the diamond manufacturing and trading industry, besides its established track record with a comfortable capital structure and healthy debt coverage indicators. The rating notes the marketing support from the firm's other Group concerns involved in similar line of business.

The rating, however, remains constrained by the firm's moderate profitability as inherent in the cut and polished diamond (CPD) industry, high client concentration and its high working capital intensity as a result of a high inventory holding period. The rating remains constrained by MBPW's exposure to adverse movements in the prices of rough diamonds and foreign exchange rates. However, the currency risk is partly mitigated by a natural hedge from the import of diamonds. ICRA notes the risk related to capital withdrawals impacting its net worth, as witnessed in the recent past, given its constitution as a partnership firm. The CPD industry is characterised by stiff competition from players in the unorganised as well as organised sectors.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that MBPW will continue to benefit from the extensive experience of its partners in the diamond industry.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record in diamond industry – MBPW was established in 1973 as a partnership firm by Mr. Manoj Mehta and Mr. Kiran Mehta. The partners have been in the business of manufacturing and trading of diamonds for more than three decades. The vast experience of the partners in this business has helped in establishing strong relationship with the customers as well as suppliers, giving it an edge over its competitors.

¹Pre- Shipment Credit in Foreign Currency

Comfortable capital structure and healthy debt coverage metrics – The firm’s capital structure remained comfortable, as reflected by a gearing of 0.32 times as on March 31, 2019 due to its high net worth base in relation to the overall debt levels. The coverage indicators remained healthy as reflected by an interest cover of 8.38 times in FY2019 (5.60 times in FY2018) and Total Debt/OPBDIT of 1.06 times in FY2019 (0.87 in FY2018).

Marketing support from Group concerns involved in similar line of business – The firm has other Group concerns – M. B. Mehta & Co. (MBM) and Parmes Diamond Exports Pvt. Ltd. (PDEPL), involved in similar line of business. Thus, MBPW is able to extend and receive marketing support from these Group entities on a continual basis.

Credit challenges

Moderate profitability due to low value addition and intense competition – The profitability remains moderate in the range of 6-7% at the operating levels due to limited value addition as inherent in the diamond trading business. Further, MBM not only faces stiff competition from dominant unorganised players, but also from a few well-established, organised players that are similar in scale and size, which exerts pricing pressures.

High customer concentration risk – MBPW’s customer base primarily comprises wholesalers and traders from the overseas as well as domestic markets. The firm’s customer base remains concentrated with the top two customers accounting for 73% of the total sales in FY2019 (61% in FY2018). Any moderation in demand from its key customers could have a material impact on its profitability indicators and credit quality.

High working capital intensity of operations due to high inventory holding period – The working capital intensity remains high, as reflected by its net working capital/operating income of 27% as on March 31, 2019 (28% as on March 31, 2018). This is primarily due to the higher inventory holding period resulting from a long conversion cycle and elongated receivables, though the same is in line with general industry trends.

Susceptibility of margins to foreign exchange fluctuations and prices of rough diamonds – Since a major part of the sales are in the form of exports and are dollar-denominated sales, the firm’s margins are susceptible to exchange rate fluctuations. However, the risk is partially mitigated by a natural hedge through imports and forward contracts. Its operations remain exposed to the volatility in rough diamond prices and to the intense competition prevailing in the industry, which affects its pricing flexibility to a large extent.

Risk of capital withdrawals in partnership firm – Being a partnership firm, any sizeable withdrawals by the partners from the capital account may impact MBPW’s net worth and thereby the capital structure.

Liquidity position: Adequate

MBPW does not have any external long- term debt on its books as on March 31, 2019 and hence there are no scheduled repayments. It does not have any debt-funded capex in the near-term. MBPW had unencumbered cash and bank balance of Rs. 2.68 crore and liquid investments of Rs. 1.22 crore as on March 31, 2019, supporting its liquidity. The fund flow from operations remained positive at Rs. 5.48 crore in FY2019 primarily due to its steady operating profits. The working capital utilisation remained low with an average fund-based utilisation of 23% during July 2018 to September 2019 indicating adequate liquidity.

Rating sensitivities

Positive triggers – ICRA could upgrade MBPW’s rating if the company demonstrates a sustained improvement in its revenue and improvement in net working capital cycle.

Negative triggers – Negative pressure on MBPW’s rating could arise if further capital withdrawals lead to a decline in net worth, or any material decline in revenues on sustained basis or deterioration in working capital cycle is witnessed.

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	Rating is based on standalone financial statements of the issuer

About the company:

MBPW was established in 1984 as a partnership firm by Mr. Manoj Mehta and Mr. Kiran Mehta. At present, it is involved in precision cutting and trading of fancy-shaped polished diamonds through job work, mainly from its Group concern Parmes Diamond Exports Pvt. Ltd. (jointly owned with Mahendra Brothers Exports Pvt. Ltd., an established and reputed name in the diamond business) located in Navsari, Gujarat as well as other manufacturers based in Surat (Gujarat). MBPW’s product range comprises diamonds of 0.15–1 carat in various cuts and shapes such as round, princess, marquise, oval and others. It was involved in processing and trading of rough diamonds till FY2018, however, this forms a very small part of its overall operations at present. Rough diamonds for cutting and polishing are mainly imported from suppliers based in Belgium, the USA and Hong Kong. The firm caters to the domestic as well as the overseas markets with export sales accounting for ~54% of its total sales in FY2019. MBPW has its registered office at Bharat Diamond Bourse at Bandra Kurla Complex in Mumbai.

The firm reported a net profit of Rs. 5.59 crore on an operating income (OI) of Rs. 143.72 crore in FY2019, compared to a net profit of Rs. 4.49 crore on an OI of Rs. 118.85 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2018
Operating Income (Rs. crore)	118.85	143.72
PAT (Rs. crore)	4.49	5.59
OPBDIT/OI (%)	6.86%	6.79%
RoCE (%)	19.75%	24.63%
Total Outside Liabilities/Tangible Net Worth (times)	1.30	1.25
Total Debt/OPBDIT (times)	0.87	1.06
Interest Coverage (times)	5.60	8.38
DSCR (times)	4.15	5.84

Source: M.B. Polishing Woks

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					01-Nov-2019	06-Sep-2018	24-Aug-2017	-
1	Post Shipment Credit (PSC)	Long Term/ Short Term	20.00	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-
2	Export Packing Credit (EPC)*	Long Term/ Short Term	(6.00)	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-
3	PCFC*	Long Term/ Short Term	(20.00)	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-

Amount in Rs. crore

* sub-limit under Post Shipment Credit

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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Post Shipment Credit	NA	NA	NA	20.00	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	Export Packing Credit*	NA	NA	NA	(6.00)	[ICRA]BB+ (Stable)/ [ICRA]A4+
NA	PCFC*	NA	NA	NA	(20.00)	[ICRA]BB+ (Stable)/ [ICRA]A4+

* sub-limit under Post Shipment Credit

Source: M.B. Polishing Woks

Annexure-2: List of entities considered for consolidated analysis: NA

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