

February 10, 2022

## Sanghvi & Sons: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital Facilities	70.0	70.0	[ICRA]BBB- (Stable)/[ICRA] A3; reaffirmed
<b>Total</b>	<b>70.0</b>	<b>70.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes comfort from the extensive domain experience of the partners of Sanghvi & Sons (SS) of over three decades, the firm's long track record of operations in the cut and polished diamond (CPD) industry as well as its established relationships with customers and suppliers. ICRA also notes the improvement in demand conditions in the CPD industry since H2 FY2022, which led to an increase in revenues in FY2022. The improvement has been fuelled by the revival of demand of polished diamonds from key consuming export markets of the US and Hong Kong. SS' financial profile also remains comfortable owing to low gearing and adequate coverage indicators.

The ratings are, however, constrained due to SS' working capital intensive nature of operations owing to its high inventory holding period as well as its modest profits, which can be attributed to the low value additive nature of the business. Being a net importer, the firm's profit margins are susceptible to foreign exchange fluctuations, though the risk is partially offset by exports, which provide a natural hedge. The profit margins are also exposed to stiff competition from unorganised as well as organised players, resulting in limited pricing power. The ratings also continue to incorporate the risks associated with SS' constitution as a partnership concern, wherein any substantial withdrawals from the capital account can adversely impact its capital structure.

The Stable outlook on the long-term rating reflects ICRA's opinion that SS will continue to sustain its credit profile in the near term benefitting from its extensive track record of operations, its diversified customer base as well as improved demand conditions in the CPD industry.

### Key rating drivers and their description

#### Credit strengths

**Experience of partners in the CPD industry for over three decades** – SS manufactures and trades in CPDs, ranging from one to three carats in different shapes, sizes and colours. The firm, at present, is managed by three partners — Mr. Mohanlal Sanghvi, Mr. Roshan Sanghvi and Mr. Dhanesh Sanghvi. The extensive experience of the partners for over three decades in this industry enhances the firm's competitive position in the industry.

**Well diversified customer base; long-term relationship with key suppliers** – The firm enjoys established relationships with its customers including traders and jewellery manufacturers in the domestic as well as overseas markets. Its customer base is diversified, with the top-10 customers accounting for 41% of the total revenues in FY2021. The firm caters to key markets like Hong Kong, the US, Belgium, and Israel among others. These markets accounted for 53% of the total revenues in FY2021 and 57% in 8M FY2022 (as per provisional estimates). The firm enjoys established relationships with diamond auction houses and wholesalers, which ensure uninterrupted supply of rough diamonds.

**Healthy demand momentum in FY2022, financial profile continues to remain adequate** – The firm has moderately sized operations with revenues of Rs. 304.4 crore in FY2021. Besides, the YoY revenue growth had been declining during FY2018-FY2020 owing to subdued demand situation arising out of multiple events including political disturbance in Hong Kong, US-China trade relations. The firm reported a modest 1% YoY increase in revenues in FY2021 amid the Covid-19 induced disruptions in H1 FY2021. However, the demand recovery has been strong since H2 FY2021, partly aided by the pent-up demand given the limited avenues for the consumers to spend due to the pandemic. The demand for polished diamonds is expected to remain healthy in FY2022 given the strong recovery in retail offtake from the key consuming markets, which would support the firm's revenue growth. The firm reported revenues of Rs. 226.3 crore in 8M FY2022, with an expected 15% YoY growth in FY2022. The firm's financial profile continues to remain comfortable, marked by a low gearing of 0.6 times as on November 30, 2021, and adequate coverage indicators with an interest cover of 3.8 times in 8M FY2022.

## Credit challenges

**High working capital intensity of operations** – The working capital intensity of the firm's operations remains high at 37% as on March 31, 2021, due to its high inventory holding period. At any given time, the firm holds inventory of 125 to 135 days, given the long business cycle. The firm extends a credit period of up to 120 days to its customers and receives a credit period of 90 days from its suppliers. In case of purchases of rough diamonds via auction, payments are made in advance.

**Exposure to foreign currency fluctuation** – Being a net importer, the firm is exposed to risks associated with adverse movements in foreign exchange rates. However, the same is partially mitigated by the natural hedge provided from the export of polished diamonds. Also, the scheme of Diamond Dollar Account (DDA) availed by SS accords protection against currency fluctuations to an extent as this account is denominated in dollars.

**Thin profit margins owing to low value additive nature of business** – SS reported an operating profit margin (OPM) of 3.0% and 3.2%, in FY2021 and 8M FY2022, respectively. The profitability has remained modest due to the low value addition in the CPD business coupled with the fragmented nature of the industry. Besides, the firm's operations remain exposed to the volatility in polished diamond prices and intense competition prevailing in the industry, which affects its pricing flexibility to a large extent.

**Inherent risks associated with the partnership nature of firm** – The firm is exposed to the risk of capital withdrawals by partners, which could impact its capital structure. Any significant withdrawals may lead to funding gaps and increase the reliance on external borrowings, resulting in leveraging of the capital structure.

## Liquidity position: Adequate

The liquidity position of the firm remains **adequate** supported by improved cash flows in FY2022 and headroom available in the working capital limits. The firm's average working capital utilisation had remained moderate at 77% over the 11 months ending November 2021. The cash generation is expected to improve in FY2022, aided by an increase in revenues and profits owing to a healthy demand of polished demands in the export markets. SS' debt profile, like most of the CPD companies, is largely short term in nature for meeting its working capital requirements. Additionally, the firm received further working capital term loans from its lenders worth Rs. 12.2 crore in FY2022, repayable over a tenure of 5 years, in addition to a moratorium period of one year. The annual repayment obligations for FY2023 and FY2024 stand at Rs. 1.0 crore and Rs. 2.4 crore, respectively. The firm does not envisage any major capital expenditure requirements over the near to medium term, which also provides some comfort to its liquidity.

## Rating sensitivities

**Positive factors** – ICRA could upgrade SS's ratings if the firm demonstrates a consistent growth in revenues and profits. Improved working capital management due to faster turnaround of inventory along with timely collection of receivables, which materially improves the liquidity profile, would also be a positive trigger.

**Negative factors** –Pressure on SS’s ratings could arise if any moderation in the firm’s revenues/profitability metrics or a stretch in the working capital cycle or substantial withdrawals adversely impacts its financial profile and liquidity position. Sustained weakening in interest coverage ratio to less than 2.8 times would also trigger ratings downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the firm.

### About the company

Sanghvi & Sons (SS) was established as a partnership firm in 1981 by Mr. Tarachand Sanghvi and Mr. Mohanlal Sanghvi. The firm is involved in trading and manufacturing of CPDs. The manufacturing of polished diamonds forms the core business of the firm, accounting for over 95% of the revenues, while the balance is contributed by trading operations. The product profile of the firm comprises diamonds ranging from 1 to 3 carats. SS sells its products in the domestic as well as international markets through traders, marketing alliances and online sales through its web portal. The firm’s manufacturing facilities are in Surat and Navsari in Gujarat and marketing and corporate offices in Mumbai, Maharashtra.

### Key financial indicators (audited)

	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	300.1	304.4
PAT (Rs. crore)	4.6	4.4
OPBDIT/OI (%)	3.6%	3.0%
PAT/OI (%)	1.5%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.3
Total Debt/OPBDIT (times)	5.0	5.5
Interest Coverage (times)	3.1	3.8

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

*Note: Amount in Rs. crore; All calculations are as per ICRA research*

*Source: Firm, ICRA research*

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

**Any other information: None**

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					February 10, 2022	February 09, 2021			July 28, 2020
1 Working Capital Limits	Long Term/Short Term	70.0	-	[ICRA]BBB-(Stable)/[ICRA] A3	[ICRA]BBB-(Stable)/[ICRA] A3	[ICRA]BBB-(Negative)/[ICRA] A3	[ICRA]BBB-(Stable)/[ICRA] A3	[ICRA] A3	

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term/Long Term – Fund Based	Simple

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 analyzing 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](http://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	PC/PCFC	-	-	-	16.0	[ICRA]BBB-(Stable)/[ICRA] A3
NA	FBP/FCBD/UFBP/PCBP	-	-	-	19.0	[ICRA]BBB-(Stable)/[ICRA] A3
NA	Standby Export Limit	-	-	-	7.0	[ICRA]BBB-(Stable)/[ICRA] A3
NA	Foreign Bills Discount	-	-	-	24.0	[ICRA]BBB-(Stable)/[ICRA] A3
NA	Standby Limit	-	-	-	4.0	[ICRA]BBB-(Stable)/[ICRA] A3

Source: Firm

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS

### Jayanta Roy

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

### Priyesh Ruparelia

+91 22 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

### Sakshi Suneja

+91 22 6114 3400

[sakshi.suneja@icraindia.com](mailto:sakshi.suneja@icraindia.com)

### Sagarikaa Mukherjee

+91 22 6169 3379

[sagarikaa.mukherjee@icraindia.com](mailto:sagarikaa.mukherjee@icraindia.com)

## RELATIONSHIP CONTACT

### Jayanta Chatterjee

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2022 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](http://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.