

February 10, 2020

B. Vijaykumar & Co.: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term, Fund based [#]	55.00	55.00	[ICRA]A4+; reaffirmed
Short Term - Unallocated	15.00	15.00	[ICRA]A4+; reaffirmed
Total	70.00	70.00	

**Instrument details are provided in Annexure-1; [#]Foreign Documentary Bill Purchased/ Foreign Usance Documentary Bill Purchased (FDBP/FUDBP)*

Rationale

The reaffirmation of rating factors in the experience of the partners of B. Vijaykumar & Co. (BVC or the firm) in the cut and polished diamonds (CPD) business as well as its established relationship with customers and suppliers. BVC's scale of operations has been moderate with a substantial improvement in the capital structure in FY2018 and FY2019 through capital infusion from partners leading to overall improvement in the financial flexibility of the firm.

The rating is, however, constrained by the continued degrowth in revenue in FY2019, high working capital intensity arising from slow receivable turnaround and increased inventory holding, modest profitability levels due to trading operations and limited pricing flexibility in the intensely competitive CPD business. The rating is also constrained by the geographically concentrated revenue profile and the vulnerability of the firm's operations to movement in polished diamond prices as well as forex movements. Being a partnership firm, capital withdrawal risk continues to remain a key monitorable and any erosion in net worth base due to material withdrawals, will be a key rating sensitivity.

Key rating drivers

Credit strengths

Over four decades of experience of the partners in the CPD business - BVC has been engaged in the CPD sector for over four decades. The extensive experience of the promoters has facilitated established relationships with customers as well as suppliers in India and overseas. The business is primarily handled by Mr. Bharat Shah while Mr. Rashesh Shah manages the manufacturing functions. Mr. Bharat Shah and Mr. Rashesh Shah are actively involved in the marketing activities of the firm.

Moderate scale of operations - With a revenue of Rs. 183.84 crore in FY2019, the firm has moderate scale of operations in the CPD industry. In view of high costs in importing and processing rough diamonds, BVC is engaging in domestically procuring polished diamonds for trading purposes. Increased domestic procurement has also helped in limited inventory holding of rough diamonds, apart from limiting forex loss and duty payments on imports.

Substantial improvement in capital structure in FY2018 and FY2019 through capital infusion from partners; debt primarily comprises working capital borrowings – BVC's net worth, which eroded in FY2016, was partly rebuilt through capital infusion of Rs. 5.86 crore in FY2017. Further in FY2018, the partners' capital stood at Rs. 48.74 crore with a sizable

infusion of Rs. 32.16 crore, out of which Rs. 28.9 crore has been invested by Vishal Diamonds Private Limited, an associate company. As on March 31, 2019, BVC's net worth stood at Rs. 56.05 crore with a further infusion of Rs. 6.10 crore leading to strengthening of net worth base along with improvement in TOL/TNW to 1.14 in FY2019 from 2.02 in FY2018.

Credit challenges

Degrowth in revenue in FY2018 and FY2019, modest profitability indicators owing to significant share from trading business – The firm has recorded degrowth in operating income of 20% in FY2019 due to tightening access to bank finance whereby BVC is required to provide 100% Export Credit Guarantee Corporation of India (ECGC) coverage for its bill discounting facility. The firm recorded forex gain of Rs. 4.25 crore in FY2019 as it imported to a small extent, supported by active hedging on the export bills where the firm benefitted on the appreciation of the Dollar in FY2019. The company also reported non-operating income in the nature of profit from sale of property to the tune of Rs. 2.27 crore, which led to net margins of 0.66% in FY2019.

High working capital intensity arising from slow debtors' turnaround; increased inventory holding in FY2019 - The average receivables cycle in FY2019 continued to remain high at 161 days. With elongated receivable period, along with limited credit available from domestic suppliers, the working capital intensity (NWC/OI) rose to 39% in FY2019 from 37% in the previous fiscal. Further in FY2019, the company witnessed higher levels of inventory. However, as on December 31, 2019, inventory level normalised at Rs. 4.93 crore from an earlier high of Rs. 11.88 crore as on March 31, 2019.

High geographical concentration risk increases vulnerability to economic downturns in key consuming markets - BVC continues to be exposed to geographical concentration risks due to its high exposure to the Hong Kong market. Hong Kong generated about ~39% of the total revenues of the firm in H1 FY2020, followed by USA (~31%). Though the firm is exposed to geographic concentration risks, its customers are wholesalers/distributors resulting in a diverse end-customer profile. BVC's exposure to US and Italian markets has increased in FY2020, along with the addition of new markets like Japan in FY2020. ICRA notes that BVC's business operations remain vulnerable to any adversity in its key consuming markets.

Business operations vulnerable to competition from players in the unorganised as well as organised sectors, price movements of roughs and polished diamonds as well as forex fluctuations - The CPD industry is highly unorganised and BVC faces intense competition from local players. This high degree of fragmentation, coupled with the excess supply in the domestic market, has led to high competitive intensity in this segment, limiting the pricing power of industry players in the segment, affecting their margins.

Partnership constitution renders exposure to risks of capital withdrawals - Given BVC's constitution as a partnership firm, it is exposed to discrete risks including the possibility of withdrawal of capital by the partners, as witnessed in the past.

Liquidity position: Stretched

BVC's liquidity profile is **stretched** given the working capital requirements and reduced bank finance. The company's fund flow from operations have remained modest over the period under study. Despite an undrawn working capital limit of

Rs. 25.12 crore as on December 31, 2019, BVC has limited access to undrawn limits at present. The firm had cash and cash equivalents of Rs. 3.55 crore as on March 2019. The scheduled repayment obligation for vehicle loans is low to the tune of Rs. 0.06 crore for the coming fiscals.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if BVC’s profitability improves on a sustained basis, along with improvement in working capital management.

Negative triggers – Downward pressure on the rating could arise if BVC’s profitability margins show sustained deterioration, withdrawal of capital by partners and/or inability to access bank funding

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Gems & Jewellery Industry – Cut & Polished Diamonds
Parent/Group Support	-
Consolidation/Standalone	Standalone approach

About the company

Established in 1971 and promoted by Mr. Bharat Shah and family, B. Vijaykumar & Co. (BVC or the firm), a partnership firm, is engaged in manufacturing and exporting CPDs and trading in polished diamonds. The firm has a manufacturing facility in Surat (Gujarat) and Mumbai (Maharashtra), and an office in Mumbai. BVC is the flagship company of the Bharat Shah Group, which comprises other group companies, partnership firms, trust and Hindu Undivided Family (HUF). The Group is present in the gems and jewellery, entertainment and construction industries.

In FY2019, the firm reported a net profit of Rs. 1.21 crore on an operating income of Rs. 183.84 crore, as compared to a net profit of Rs. 3.05 crore on an operating income of Rs. 229.94 crore in the previous year.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	229.94	183.84
PAT (Rs. crore)	3.05	1.21
OPBDIT/ OI (%)*	2.19%	-1.01%
RoCE (%)	9.39%	5.50%
Total Debt/ TNW (times)	1.14	0.60
Total Debt/ OPBDIT (times)	10.97	-18.18
Interest Coverage (times)	1.78	-0.64

*OPBDITA is net of forex adjustments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2020)		Rating 10-Feb- 2020	Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2019 19-Mar- 2019	FY2018 5-Jan-2018	FY2018 5-Apr-2017
1 FDBP/FUDBP	Short Term	55.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4
2 Unallocated limit	Short Term	15.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4

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
NA	FDBP/FUDBP	-	-	-	55.00	[ICRA]A4+
NA	Unallocated limit	-	-	-	15.00	[ICRA]A4+

Source: BVC

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