



Rating Rationale

Dhiren Diamonds

28 Sept 2020

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 14.50 Crores of Dhiren Diamonds.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Aug 2019)	Present
Fund based	16.00	14.50	Long Term	BWR B+ Outlook: Stable	BWR B+ Outlook: Stable (Reaffirmed)
Total	16.00	14.50	INR Fourteen Crore And Fifty Lakh Only		

Note: The company also has various other vehicle/term loans with other banks and financial institutions. The same is not considered for the purpose of rating.

#Ratings were moved to RNR category in Aug 2020

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Complete details of Bank facilities is provided in Annexure-I

Rating Action/ Outlook

BWR has essentially relied on Audited financials up to FY19, provisional financial for FY20, projected financial, publicly available information and information & clarifications provided by management.

The rating draws comfort from experienced promoters with long standing established relationships with clients and moderate financial risk profile. However, the rating is constrained by declining trend of operations, exposure to intense competition and partnership nature of constitution.

BWR believes Dhiren Diamonds' business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



Key Rating Drivers

Credit Strengths:

- **Experienced promoters:** The firm benefits from the experienced promoters with extensive experience in the diamond business since 1992. Over the years, the promoters have established strong relationships with customers and suppliers in domestic as well as international markets.
- **Moderate financial risk profile :** The firm's financial risk profile is moderate, reflected by low gearing at 1.12x as against 1.13x and TOL/TNW at 1.20x and 1.49x in FY18 & FY19 respectively. Debt protection metrics are moderate indicated by ISCR at 1.38x and Tangible net worth at Rs. 21.23 Crs as on 31st March, 2019.

Credit Risks:

- **Declining trend of operations:** The firm's revenue is generated from local as well as export sales. Recently, an overall slowdown in the demand for polished diamonds and jewelry globally, affected the revenue trend of the firm in the last three years. The firm's net sales declined from Rs. 89.58 Crs in FY17 to Rs. 86.16 Crs in FY18 and further dropped by 30% in FY19 i.e Rs. 60.30 Crs.
- **Operating profit margins susceptible to movement in the foreign currency and working capital intensive operation:** Mostly the rough diamonds are being imported from Dubai and partly sold in foreign market, the firm's profit margins are exposed to the foreign- exchange fluctuation risk. The firm has not adopted any hedging policy to mitigate such risks. Over and above, due to the working capital intensive nature of operation, the firm's operating cost remains high and puts pressure on profit margins.
- **Exposure to intense competition in diamond export business and partnership nature of constitution:** The diamond export business is highly competitive due to the large number of players in the market. Further, the partnership nature of the constitution exposes the Firm to inherent risk of capital withdrawal by the partners in the event of personal contingencies.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).



Rating Sensitivities

Positive:

- Improvement in scale of operations and profitability on a sustained basis
- Improvement in debt protection metrics

Negative:

- Decline in net sales and profitability
- Deterioration in gearing and debt coverage metrics due to increase in debt level

Liquidity Position: Stretched

The firm has reported a net cash accruals of Rs. -0.06 Crs (subtracting the Forex gain of Rs.0.93 Cr) and outstanding receivables of Rs.21.03 Cr as on 31st March, 2019. Receivable days improved from 120 to 86 days in FY19 & FY20 respectively. Liquidity is stretched as reflected by elongated conversion cycle in FY20 and average cash credit (UCO Bank) utilization is high at more than 90% in the last six months. Cash and bank balance were low at Rs.0.20 Cr as on 31 Mar 2019.

About the Company

Dhiren Diamonds was established in 1992 at Surat, Gujarat for manufacturing certified and non-certified polished diamonds ranging from 20 cents to 5 carats. The firm is being managed by Mr. Dahya Dhamecha and other partners.

Company Financial Performance

Key Parameters	Units	FY 18	FY 19
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	86.60	61.23
EBITDA	Rs. Cr	3.24	3.17
PAT	Rs. Cr	0.59	0.18
Tangible Net worth	Rs. Cr	21.83	21.23
Total Debt/Tangible Net worth	Times	1.13	1.12
Current Ratio	Times	2.51	2.06

The Company has reported revenue of ~Rs 87.85 Crs. in FY 20, on a provisional basis.

Status of non-cooperation with previous CRA- CRISIL B+ (Stable), Issuer not cooperating on 02 Aug 2019

Rating History for the last three years

Instrument /Facility	Current Rating			Rating History*		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	302019	2018	2017
Fund Based						
PCFC/ EBD/FBP/CC (fully interchangeable)	Long Term	14.5	BWR B+ Outlook: Stable (Reaffirmed)	BWR B+ Outlook: Stable	-	-
Total		14.5	₹ Fourteen Crore And Fifty Lakh Only			

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Complexity levels of the rated instrument:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)



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