



## Press Release

### Sheetal Manufacturing Company Private Limited (SMCPL)

July 25, 2023

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term/ Short Term Fund Based Bank Facilities – EPC/ PC/PCFC/ FDBP/FUDBP/AFDBC/FDBD /PSC/ EBR/PSCFC	651.00 (Increased from 612.00)	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
Long Term/ Short Term Non-Fund Based Bank Facilities – Standby Letter of Credit (SBLC)	165.00 (Increased from 159.00)	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
Short Term Non - Fund Based Bank Facilities – Forward Contract (CEL)	5.00 (Reduced from 11.25)	IVR A1+ (IVR A One Plus)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
Proposed Long Term/ Short Term Bank Facilities	49.00 (Reduced from 87.75)	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
<b>Total</b>			<b>870.00</b>	
			<b>(Rupees Eight Hundred and Seventy Crore only)</b>	

Details of Facilities are in Annexure 1

#### Detailed Rationale

The aforesaid rating of Sheetal Manufacturing Company Pvt. Ltd. derives strength from extensive experience of promoters with established track record of the company's operations, its association with De Beers and Rio Tinto which facilitates steady supply



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of quality rough diamonds, well established distribution network and online presence providing access to global market, The sales momentum has significantly improved, leading to robust sales in the financial year FY2023(P) as well as in FY22, in comparison to FY21. The growth is anticipated to persist due to strong demand from major Indian and international markets, healthy financial risk profile and diversified customer base. However, these rating strengths remain constrained by elongated working capital cycle, and fragmented nature of CPD industry. The rating is removed from Issuer Non-Cooperating category as the client has submitted all required information to carry out the surveillance of the rating.

### **Key Rating Sensitivities:**

#### **Upward Factors**

Significant growth in scale of operations with improvement in profit margins leading to improvement in cash accruals on a sustained basis.

#### **Downward Factors**

Significant deterioration in the scale of operations coupled with deterioration in profitability leading to any deterioration in debt protection metrics.

Any stretch in working capital leading to liquidity constraints.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

#### **Extensive experience of promoters & established track record of operations:**

The Company is promoted by Mr. Govindbhai Kakadia and family. Mr. Govindbhai Kakadia has extensive experience of over 5 decades into the line of activity. The promoters have maintained longstanding relations with customers while successfully navigating through several business cycles over the years. The Promoters are well



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supported by the second generation in the family – Mr. Ajay Kakadia, Mr. Bharat Kakadia and Mr. Chirag Kakadia. SMCPL has a global presence and is among one of the leading diamond players in India. Through extensive research, SMCPL is successful in developing specialized products of natural cut and polished diamonds of various shapes, sizes, color, and cartages and is successful in developing a niche demand for its products - not only in India but also in a number of diamond importing countries. They have a diversified customer base, based in USA, Europe, and Hong Kong among other countries.

### **Association with De Beers and Rio Tinto which facilitates steady supply of quality rough diamonds:**

The CPD industry depends heavily on global miners like De Beers and Rio Tinto for sourcing of rough diamonds. However, only a few companies across the globe enjoy direct access to the rough supply from these miners due to stringent qualification requirements. SMCPL is a Diamond Trading Company (DTC) sight holder for De Beers since 1998 and sight holder for Rio Tinto since 2006, which ensures steady supply of rough diamonds at competitive rates and thus it enjoys an advantage over other players in terms of availability and pricing. Additionally, SMCPL fulfills its export order requirements by sourcing materials through its overseas offices in Belgium and Dubai. Unlike numerous natural diamond exporters from India, SMCPL receives regular supplies of rough diamonds tailored to its needs.

### **Well-established distribution network and online presence providing access to global market:**

The Company has a strong distribution network in place through its subsidiaries/step-down subsidiaries in key consuming markets like Hong Kong, New York in the USA, Dubai in the UAE, and Antwerp in Belgium. By creating a distinctive distribution network, SMPCL consistently attracts new customers and ensures a consistent supply



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of rough diamonds. The company also launched an online IOT based platform, which marked its entry into the ecommerce space of cut and polished diamonds. The online store has a registered user base of more than ~6000 customers.

**The sales momentum has significantly improved, leading to robust sales in the financial year FY2023(P) as well as in FY22, in comparison to FY21. The growth is anticipated to persist due to strong demand from major Indian and international markets.**

The CPD industry witnessed a strong recovery in FY22 and FY23 led by revival in demand in export markets, after witnessing a significant contraction in FY20 and FY21 due to the adverse impact of the pandemic. The total operating income of the company registered a growth of 31.27% in FY23(P) led by improved demand. The demand for polished diamonds is expected to remain healthy in short to medium term, which would support the Company's revenue growth in the current fiscal year as well. The overall operating income in FY23(P) stood at INR.5755.87 Crore as compared to INR.4381.61 Crore in FY22. Overall, the company has established a good presence in the regions it operates, given the promoters' strong relationships established with the distribution network over the years. However as compared to last rating action the company has achieved growth of 107.67% in FY22 when compared to FY21.

### **Healthy Financial Risk profile:**

The Company's financial risk profile is healthy marked by its comfortable capital structure and debt protection metrics. The TNW of the Company stood at Rs. 1567.68 Crore as on March 31, 2023[P] (FY22: Rs. 1294.93 Crore, FY21: Rs. 1058.63 Crore). The capital structure of the company remained comfortable marked by healthy gearing of 0.50x as on March 31, 2023(P) (FY22: 0.49x). Total indebtedness of the Company also remained comfortable as reflected by TOL/TNW at 0.75x as on March 31, 2023[P]



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(FY22: 0.87x). The debt protection metrics of the company remained comfortable marked by Interest Coverage Ratio at 9.40 times as on March 31, 2023(P), and Total debt / EBITDA at 2.00 times as on March 31, 2023(P).

### **Diversified customer base:**

SMCPL has a diversified customer base with ~10% of its consolidated total revenues driven by the top 10 customers in FY2023. Its large customer base, spanning various countries, can be attributed to the relationships it has created by operating in the diamond industry for more than three decades. The promoter directors of SMCPL possess extensive and comprehensive knowledge in the processing of natural rough diamonds. Their expertise extends to cutting, polishing, and related processes involved in treating rough diamonds. Additionally, they have successfully established state-of-the-art factories in Surat, equipped with modern machinery imported from various parts of the world. With such backgrounds, SMCPL has established a customer base not only in India but also in countries such as the USA, Hong Kong, Belgium, and China, primarily for its certified cut and polished diamonds. Each year, these overseas customers place advance orders, enabling SMCPL to plan production effectively and fulfil orders punctually. The customer base continues to expand with the support of overseas offices, resulting in a consistent increase in turnover year after year. Recognizing the notable export performance sustained over several years, the Ministry of Commerce, India, has awarded SMCPL the prestigious status of a FOUR-STAR export house.



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### Key Rating Weaknesses

#### **Elongated working capital cycle:**

The Group's operations require a significant amount of working capital, which is evident from the Gross Current Asset (GCA) days. In FY23(P), the GCA days improved to 156 days compared to 176 days in FY22. This improvement is primarily due to reduced levels of inventory and debtors. Specifically, the Group's inventory days decreased to 91 days in FY23(P) from 106 days in FY22, while debtor days decreased to 41 days in FY23(P) from 45 days in FY22. On the other hand, creditor days stood at 25 days in FY23(P) compared to 27 days in FY22.

#### **Inherent risk and fragmented nature of CPD industry:**

India is the world's largest centre for cutting and polishing of diamonds. However, the Cut & Polished Diamond (CPD) industry in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated Gems & Jewellery manufacturers leading to a high level of competition. The export oriented CPD industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry.

#### **Analytical Approach: Consolidated**

Consolidation with its subsidiaries and step-down subsidiaries, on account of significant operational and financial linkages between the entities. These entities have fungible cash flows and are under common promoters.

#### **Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on Consolidation of companies](#)

[Criteria of assigning rating outlook](#)



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### Liquidity – Adequate

The liquidity position of the Company is expected to remain adequate characterized by sufficient cushion in its cash accruals vis-à-vis its debt obligations. The Company does not have any long-term debt obligations. Further, GCA is expected to increase with increase in scale of operations. However, the average working capital utilization of the company remained on the higher side at ~72% for the past twelve months ended May 2023 indicating a limited liquidity buffer. The Company has lien free cash and cash equivalents of Rs. 28.08 crores as of May 31, 2023.

### About the Company

Sheetal Manufacturing Company Private Limited is part of the Mumbai-based Sheetal Group which was established in 1985 (Incorporated in 1985 and converted into a private limited Company in 2008) by the first-generation entrepreneurs, Mr. Govindbhai Kakadia and his two brothers - Mr. Vallabh Kakadia and Mr. Ravji Kakadia. The Company is engaged in the manufacturing and export of cut & polished diamonds (CPD). It has 5 state-of-the-art diamond processing units with space of 6,00,000 sq. ft. in Surat. The Company is a designated four-star export house by the Government of India.

### **Financials: Consolidated**

(Rs. Crore)

For the year ended*/ As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	4381.61	5755.87
EBITDA	315.14	393.02
PAT	218.01	267.14
Total Debt	727.04	784.54
Tangible Net worth	1294.93	1567.68
EBITDA Margin (%)	7.19	6.83
PAT Margin (%)	4.97	4.64
Overall Gearing Ratio (x)	0.49	0.50

\*Classification as per Infomerics standards



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Financials: Standalone (SMCPL)

(Rs. Crore)

For the year ended*/ As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	3283.43	3439.19
EBITDA	247.86	276.91
PAT	167.52	183.44
Total Debt	456.73	522.13
Tangible Net worth	978.23	1163.45
EBITDA Margin (%)	7.55	8.05
PAT Margin (%)	5.09	5.31
Overall Gearing Ratio (x)	0.47	0.45

\*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: None

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (June 27, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term/ Short Term Fund Based Bank Facilities – EPC/ PC/PCFC.	Long Term/ Short Term	651.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	IVR A/Negative; Issuer Not Cooperating* (IVR A with Negative Outlook; Issuer Not Cooperating) IVR A1; Issuer Not Cooperating* (IVR A One; Issuer Not Cooperating)	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	--
2.	Long Term/ Short Term Non- Fund Based Bank Facilities – Standby Letter of Credit (SBLC)	Long Term/ Short Term	165.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable	IVR A/Negative; Issuer Not Cooperating* (IVR A with Negative Outlook; Issuer Not	IVR A+/ Stable Outlook (IVR Single A Plus with Stable	





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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (June 27, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
				Outlook)/ IVR A1+ (IVR A One Plus)	Cooperating) IVR A1; Issuer Not Cooperating (IVR A One; Issuer Not Cooperating)	Outlook)/ IVR A1+ (IVR A One Plus)	
3.	Short Term Non - Fund Based Bank Facilities – Forward Contract (CEL)	Short Term	5.00	IVR A1+ (IVR A One Plus)	IVR A1; Issuer Not Cooperating (IVR A One; Issuer Not Cooperating)	IVR A1+ (IVR A One Plus)	
4.	Proposed Long Term/ Short Term Bank Facilities	Long Term/ Short Term	49.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	IVR A/Negative; Issuer Not Cooperating (IVR A with Negative Outlook; Issuer Not Cooperating) IVR A1; Issuer Not Cooperating (IVR A One; Issuer Not Cooperating)	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)	--

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).



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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term/ Short Term Fund Based Bank Facilities – EPC/ PC/PCFC/ FDBP/FUDBP/AFD BC/FDBD /PSC/ EBR/PSCFC.	-	-	Revolvin g	651.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)
Long Term/ Short Term Non- Fund Based Bank Facilities – Standby Letter of Credit (SBLC)	-	-	Revolvin g	165.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)
Short Term Non - Fund Based Bank Facilities – Forward Contract (CEL)	-	-	Revolvin g	5.00	IVR A1+ (IVR A One Plus)
Proposed Long Term/ Short Term Bank Facilities	-	-	Revolvin g	49.00	IVR A+/ Stable Outlook (IVR Single A Plus with Stable Outlook)/ IVR A1+ (IVR A One Plus)

### Annexure 2: List of companies considered for consolidated analysis:

Sl.No.	Company Name	% of Holding
1	Sheetal Golden Works (India) LLP (SGW)	99.97% by SMCP
2	Sheetal Group USA Inc.	100% by SGW
3	Sheetal (Far East) Limited (SFE)	100% by SGW
4	Sheetal Middle East DMCC	48.67% by SFE and 51.33% by SMCP
5	Sheetal Europe BVBA	89.70% by SGW
6	Hiller Diamond (Shanghai) Co. Ltd	100% by SFE
7	Sheetal Cutting Works Private Proprietary Limited	100% by SGW



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**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-sheetal-jul23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:**

**Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).