

December 26, 2022

## Sheel Diamond Exports Private Limited: Moved to Not-Cooperating category, Ratings downgraded based on best available information

### Summary of rating action

Instrument <sup>^</sup>	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, fund-based limits	85.0	85.0	[ICRA]B+ (Stable) ISSUER NOT COOPERATING*; Rating downgraded from [ICRA]BB (Stable) and moved to the 'Issuer Not Cooperating' category
Long term, unallocated limits	30.0	30.0	[ICRA]B+ (Stable) ISSUER NOT COOPERATING*; Rating downgraded from [ICRA]BB (Stable) and moved to the 'Issuer Not Cooperating' category
<b>Total</b>	<b>115.0</b>	<b>115.0</b>	

\*Issuer did not cooperate; based on best available information.

<sup>^</sup>Instrument details are provided in Annexure-1

### Rationale

The rating downgrade is because of lack of adequate information about the Sheel Group's performance and hence the uncertainty around its credit risk. ICRA assesses whether the information available about the entity is commensurate with its rating and reviews the same as per its "Policy in respect of non-cooperation by a rated entity" available at [www.icra.in](http://www.icra.in). Lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating as the rating may not adequately reflect the credit risk profile of the entity, despite the downgrade.

As part of its process and in accordance with its rating agreement with Sheel Gems and Sheel Diamond Exports Private Limited ICRA has been trying to seek information from the entity so as to monitor its performance. Further, ICRA has been sending repeated reminders to the entity for payment of surveillance fee that became due. Despite multiple requests by ICRA, the entity's management has remained non-cooperative. In the absence of requisite information and in line with the aforesaid policy of ICRA, the rating has been moved to the "Issuer Not Cooperating" category. The rating is based on the best available information.

The rating downgrade reflects the stretched liquidity position and the continued subdued financial profile of the Group. Given its working capital-intensive nature of operations (with net working capital to operating income of 48% as on March 31, 2022) and thin operating profit margin (OPMs), the Group's reliance on debt had increased as on March 31, 2022. Additionally, the Group has large upcoming debt repayments of its guaranteed emergency credit line facilities (GECL) worth Rs. 7-12 crore during FY2023 to FY2025 against modest cash flows in the range of Rs. 2-3 crore. Given that the Group has an export-oriented revenue profile, it remains vulnerable to foreign exchange fluctuations. However, the currency risk is largely mitigated by a natural hedge from the import of rough diamonds and hedging through forward contracts. The OPM also remains exposed to adverse fluctuation in the prices of rough and polished diamonds.

The rating factors in the promoters' extensive experience of over four decades in the cut and polished diamond (CPD) industry, its diversified customer base as well as its established relationships with key customers in the domestic and international markets.

## Key rating drivers and their description

### Credit strengths

**Long track record of promoters in the industry** – The Sheel Group’s promoters have a proven track record of more than four decades in the CPD industry. The extensive experience of the promoters in the industry has helped the Group establish healthy relationships with its customers and suppliers.

**Diversified clientele across domestic and export markets** – The Group has a diversified customer base spread across domestic as well as export markets of the US, the UAE, Hong Kong, Israel, and Belgium. The customer concentration remained moderate in FY2022 with the top-10 customers contributing around 68% to the total revenues vis-à-vis 66% in FY2021.

### Credit challenges

**Subdued financial profile** – The financial profile of the Sheel Group is subdued on account of its thin OPM and working capital intensive nature of operations (as reflected by its net working capital to operating income of 48% in FY2022) primarily due to its high inventory holding period. This in turn necessitated increased dependence on debt as the Sheel Group ramped up the operations in FY2022, leading to subdued debt coverage indicators. This is evident from high total outside liabilities vis-a-vis the tangible net worth (TOL/TNW) of 2.3 times as on March 31, 2022, interest cover of 1.3 times and net cash accruals vis-a-vis the total debt of 2% in FY2022. The Group is also exposed to high repayment obligations to the tune of Rs. 7-12 crore over next three years against the expected cash flow of Rs. 2-3 crore. Besides high utilisation of working capital limits, this translates into stretched liquidity position for the Group.

**Industry characterised by severe competition from unorganised and organised players** – The diamond industry is fragmented with low value addition and intense competition. The Group faces intense competition from the unorganised players as well as from a few established organised players, which limits its pricing power. However, the promoters’ established presence in the industry for more than four decades helped the Group develop healthy business relationships with its customers as well as its suppliers.

**Exposure to forex risks** – A large part (~70-80%) of the Group’s revenues is denominated in foreign currency (primarily US dollar). Hence, the Group is exposed to adverse fluctuations in the currency markets. However, a natural hedge from exports and use of forward contracts mitigates the risk to a large extent. In addition, the diamond dollar account (DDA) scheme availed by the Group provides protection against currency fluctuation as the account is denominated in dollar terms. Besides, the Group’s margins also remain susceptible to adverse fluctuations in rough as well as polished diamond prices.

### Liquidity position: Stretched

The Group’s liquidity position remains stretched due to high working capital intensity of operations and thin OPMs, leading to high dependence on debt. The Group’s average utilisation of the working capital limit stood high at 85% during the 12-month period ended on September 30, 2022. The Group’s debt profile, like most CPD entities, is short term in nature for meeting its working capital requirements. The Group also has outstanding GECL loans of Rs. 46.9 crore with repayments of Rs. 7-12 crore in FY2023-25. As on March 31, 2022, the Group’s unencumbered balance stood at Rs. 1.5 crore.

### Rating sensitivities

**Positive factors** - Not applicable

**Negative factors** - Not applicable

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of SDEPL and SG due to operational synergies between them for being in the same line of business as well as common management.

## About the company

SDEL was incorporated in 1995 by Mr. Chetan Shah and Mr. Bhupendra Mehta to manufacture and process CPDs. It is a part of the Mumbai-based Sheel Group, which has been in the CPD industry for nearly four decades. The Group includes another entity, Sheel Gems (SG), a partnership firm incorporated in 1980 by the same promoters and is involved in the same line of business. The Sheel Group's registered office is in Mumbai and its manufacturing facilities are in Surat, Gujarat.

## Key financial indicators (consolidated)

	FY2021	FY2022
Operating income (Rs. crore)	462.2	585.7
PAT (Rs. crore)	3.0	3.7
OPBDIT/OI (%)	2.9%	3.4%
PAT/OI (%)	0.7%	0.6%
Total outside liabilities/Tangible net worth (times)	2.6	2.3
Total debt/OPBDIT (times)	13.5	9.9
Interest coverage (times)	1.5	1.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 19, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					26-Dec-2022	22-Sep-2021	15-Oct-2020	06-Aug-2019	
1	Fund based limits	Long term	85.0	-	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	
2	Unallocated	Long term	30.0	-	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term, fund based	Simple
Long term, unallocated	Not applicable

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 analysing 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: [Click Here](#)

**Annexure-I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working capital limits	-	-	-	85.0	[ICRA]B+ (Stable) ISSUER NOT COOPERATING
NA	Unallocated limits	-	-	-	30.0	[ICRA]B+ (Stable) ISSUER NOT COOPERATING

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure-II: List of entities considered for consolidated analysis**

Company Name	Consolidation Approach
Sheel Diamond Exports Private Limited	Full consolidation
Sheel Gems	Full consolidation

Note: ICRA has taken a consolidated view of both entities while assigning the ratings

## 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 6169 3349

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

### Sagarikaa Mukherjee

+91 22 6169 3327

[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)

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## ICRA Limited



### Registered Office

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

Tel: +91 11 23357940-45



### Branches



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