

**November 10, 2014**

Facilities	Amount (Rs. Crore)	Ratings
FBP/FBN/EBD*	20.00	SMERA BB/ Stable (Assigned)
Credit Exposure Limit	2.50	SMERA A4+ (Assigned)

*Includes PCL/PCFC as a sublimit to the extent on Rs.14.00 crore

SMERA has assigned ratings of **'SMERA BB' (read as SMERA double B)** and **'SMERA A4+' (read as SMERA A four plus)** to the abovementioned bank facilities of Sitaram Gems (SG). The outlook is **'Stable'**. The ratings are supported by the firm's experienced management, healthy revenue growth, moderate debt protection metrics and efficient working capital management. However, the ratings are constrained by the firm's moderate-scale operations amidst intense competition in the gems and jewellery industry. The ratings are also constrained by the susceptibility of the firm's profit margins to foreign exchange fluctuation risk.

SG, established in 2001, is a Surat-based partnership firm engaged in processing of diamonds. SG benefits from its experienced management. The partners of the firm have around 15 years of experience in the gems and jewellery industry. SG's revenues increased from Rs.86.95 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.157.48 crore in FY2013-14, a growth of ~81 per cent. The firm's revenues have grown at a healthy compound annual growth rate (CAGR) of ~52 per cent over the last five years. SG's moderate financial risk profile is marked by low debt-to-capital ratio of 0.78 times as on March 31, 2014 and comfortable interest coverage ratio of 2.03 times in FY2013-14. The firm has a comfortable working capital cycle of 31 days in FY2013-14. SG's gross current assets (GCA) stood at 175 days in FY2013-14.

Notwithstanding healthy growth in revenues, SG has moderate-scale operations with revenues of Rs.157.48 crore in FY2013-14. The firm operates in an intensely competitive segment of the gems and jewellery industry. SG's profit margins are susceptible to forex fluctuation risk.

Outlook: Stable

SMERA believes SG will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained improvement in profit margins while maintaining healthy revenue growth and comfortable working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the firm's profit margins, or in case of stretch in the firm's working capital cycle. The outlook may also be adversely affected by major deterioration in the firm's capital structure on account of higher-than-expected debt-funded working capital requirements.

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**About the firm**

SG, established in 2001, is a Surat-based partnership firm promoted by Mr. Manjibhai Kevadiya, Mr. Pravinbhai Kevadiya, Mr. Pravinbhai Miyani, Mr. Vinubhai Miyani and Mr. Vitthalbhai Kevadiya. SG is engaged in processing of cut and polished diamonds. The firm derives ~35 per cent of its total revenues from exports.

For FY2013-14, SG reported profit after tax (PAT) of Rs.1.12 crore on operating income of Rs.157.48 crore, as compared with PAT of Rs.1.32 crore on operating income of Rs.86.95 crore in FY2012-13. The firm's net worth stood at Rs.14.49 crore as on March 31, 2014, as compared with Rs.12.64 crore a year earlier.

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