

May 13, 2016

Facilities	Amount (Rs. Crore)	Rating
<b>Cash Credit</b>	<b>15.00</b>	<b>SMERA BB/Stable (Reaffirmed)</b>
<b>Export Packing Credit</b>	<b>2.00</b>	<b>SMERA BB/Stable (Reaffirmed)</b>
<b>Term Loan</b>	<b>0.15</b>	<b>SMERA BB/Stable (Reaffirmed)</b>
<b>Cash Credit (Proposed)</b>	<b>3.35</b>	<b>SMERA BB/Stable (Reaffirmed)</b>
<b>Export Packing Credit (Proposed)</b>	<b>0.50</b>	<b>SMERA BB/Stable (Reaffirmed)</b>

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (**read as SMERA double B**) on the Rs.21.00 crore bank facilities of Sovereign Diamonds Limited (SDL). The outlook is '**Stable**'. The rating continues to draw comfort from the company's experienced management, strong revenue growth and moderate financial risk profile. However, the rating remains constrained by the company's exposure to customer concentration risk, modest scale of operations and working capital-intensive business. The rating also factors in the susceptibility of profit margins to fluctuations in gold prices and intense competition in the diamond jewellery business.

### Update

SDL's revenues have increased at a compounded annual growth rate (CAGR) of 33 per cent during FY2010-11 (refers to financial year, April 01 to March 31) to FY2014-15. The operating income declined marginally from Rs.60.14 crore in FY2014-15 to Rs.53.21 crore in FY2015-16 (provisional) due to low market demand and regulatory issues. SDL registered operating profit margin of 8.76 per cent in FY2014-15 as against 9.04 per cent in FY2015-16.

SDL's moderate financial risk profile is marked by leverage (debt-to-equity ratio) of 1.54 times as on March 31, 2015 and interest coverage ratio of 2.48 times in FY2014-15. The net worth remained low at Rs.10.94 crore as on March 31, 2015.

The company is exposed to customer concentration risk as it derives ~84 per cent of its revenue from top five clients including Tribhovandas Bhimji Zaveri (Mumbai), Notandas Jewellers Private Limited, Malabar Gold & Diamonds (UAE) among others.

The operations are working capital-intensive. The working capital cycle improved from 198 days in FY2013-14 to 152 days in FY2014-15 mainly on account of the liberal terms extended by suppliers. SDL's utilisation of bank limit was thus moderate at ~80 per cent (average) during October 2015 to March 2016.

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SDL operates in an intensely competitive segment of the diamond jewellery business, which is inherently cyclical in nature. The company's profit margins are susceptible to volatility in gold prices.

### Rating Sensitivity Factors

- Scaling up operations while maintaining stable profitability
- Efficient working capital management
- Capital structure

### Outlook: Stable

SMERA believes SDL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers sustained improvement in revenues, profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

### About the Company

SDL, incorporated in 1974, is a Mumbai-based company promoted by Mr. Ajay Gehani and Mr. Ramesh Gehani. The company undertakes manufacturing of diamond-studded gold jewellery at Andheri, Mumbai.

For FY2014–15, SDL reported profit after tax (PAT) of Rs.1.85 crore on operating income of Rs.60.14 crore, as compared with profit after tax of Rs.1.02 crore on operating income of Rs.40.06 crore in FY2013-14. Further, the company reported profit after tax of Rs.0.74 crore on operating income of Rs.38.11 crore during April 2015 to December 2015, as compared with profit after tax of Rs.1.17 crore on operating income of Rs.39.46 crore in the corresponding period of the previous year. SDL's net worth stood at Rs.10.94 crore as on March 31, 2015, as compared with Rs.9.24 crore a year earlier.

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