

## Press Release

### Sovereign Diamonds Limited (SDL)

09 August, 2017

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.21.00 Cr
<b>Long Term Rating</b>	SMERA BB/Stable (Reaffirmed)

*\*Refer Annexure for details*

### Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB' (read as SMERA double B)** on the above mentioned bank facilities of Sovereign Diamonds Limited (SDL). The outlook is '**Stable**'.

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.

#### List of Key Rating Drivers and their detailed description

##### Strengths:

**Long track record of operations and experienced management** - SDL was incorporated in 1974 and is listed on the Bombay Stock Exchange (BSE). The company benefits from its experienced management. Mr. Ajay Gehani, Managing Director, has around 25 years of experience in the gems and jewellery industry. Over the years, the company has been able to forge healthy relationships with reputed customers like Tribhovandas Bhimji Zaveri (TBZ) and Malabar Gold & Diamonds.

SMERA believes that SDL will continue to benefit from its experienced management and established presence in the market.

**Improvement in operating profit margins** - SDL's operating margins improved to 8.77 per cent in FY2016-17 from 8.13 per cent in FY2015-16 mainly on account of improvement in operating efficiency.

**Comfortable financial risk profile** - SDL's moderate financial risk profile is marked by moderate net worth of Rs.13.20 crore as on 31 March, 2017. The gearing improved to 1.06 times as on 31 March, 2017 as against 1.26 times as on 31 March, 2016. The total debt of Rs.13.99 crore as on 31 March, 2017 consists of working capital funding of Rs.13.79 crore. The interest coverage ratio is comfortable at 2.02 times for FY2016-17 as against 2.12 times in FY2015-16.

SMERA believes that SDL will maintain a comfortable financial risk profile in the absence of debt funded capex.

##### Weaknesses

**Declining revenue trend** - The revenues declined consecutively over the last two years from Rs.60.14 crore in FY2014-15 to Rs.53.21 crore in FY2015-16 and further to Rs.45.19 crore in FY2016-17. The 15 per cent decline in revenue in FY2016-17 was on account of demonetisation.

**Working capital intensive operations** - SDL's operations remained working capital-intensive. The gross current asset days stand high at 203 in FY2016-17 (198 days in FY2015-16) mainly on

account of high inventory holding of ~170 days. SDL's average bank limit utilisation has been around 85 per cent for six months ended June 2017.

SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

**Customer concentration risk** - SDL is exposed to high customer concentration risk as the company derives ~75 per cent of its revenue from Tribhovandas Bhimji Zaveri (TBZ) and Malabar Gold & Diamonds. However, the company is focusing on adding new customers to its portfolio which will help reduce dependence on a few large customers.

**Analytical approach:** SMERA has considered the standalone business and financial risk profile of SDL to arrive at the rating.

### **Outlook - Stable**

SMERA believes that SDL will maintain a stable outlook over the medium term owing to 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 if the company registers deterioration in its financial risk profile and liquidity position.

### **About the Rated Entity – Key Financials**

For FY2016-17, SDL registered profit after tax (PAT) of Rs.1.05 crore on operating income of Rs.45.19 crore as against PAT of Rs.1.21 crore on operating income of Rs.53.21 crore in the previous year. The net worth stood at Rs.13.20 crore as on 31 March, 2017 compared to Rs.12.15 crore as on 31 March, 2016.

### **Applicable Criteria**

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

### **Note on complexity levels of the rated instrument:**

<https://www.smera.in/criteria-complexity-levels.htm>

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** None

**Rating History (Upto last three years):**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13 May, 2016	Cash Credit	Long Term	15.00	SMERA BB/Stable (Reaffirmed)
	Export Packing Credit	Long Term	2.00	SMERA BB/Stable (Reaffirmed)
	Term Loan	Long Term	0.15	SMERA BB/Stable (Reaffirmed)
	Cash Credit (proposed)	Long Term	3.35	SMERA BB/Stable (Reaffirmed)
	Export Packing Credit (proposed)	Long Term	0.50	SMERA BB/Stable (Reaffirmed)
20 March, 2015	Cash Credit	Long Term	15.00	SMERA BB/Stable (Assigned)
	Export Packing Credit	Long Term	2.00	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	0.15	SMERA BB/Stable (Assigned)
	Cash Credit (proposed)	Long Term	3.35	SMERA BB/Stable (Assigned)
	Export Packing Credit (proposed)	Long Term	0.50	SMERA BB/Stable (Assigned)

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Cash Credit	N.A.	N.A.	N.A.	15.00	SMERA BB/Stable (Reaffirmed)
Export Packing Credit	N.A.	N.A.	N.A.	2.00	SMERA BB/Stable (Reaffirmed)
Term Loan	N.A.	N.A.	N.A.	0.15	SMERA BB/Stable (Reaffirmed)
Cash Credit (proposed)	N.A.	N.A.	N.A.	3.35	SMERA BB/Stable (Reaffirmed)
Export Packing Credit (proposed)	N.A.	N.A.	N.A.	0.50	SMERA BB/Stable (Reaffirmed)

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**ABOUT SMERA**

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