

Press Release

D Gem Mount (DGM)

05 October, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA BB+ / Outlook: Negative

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB+**' (read as **SMERA BB plus**) on the Rs.9.50 crore bank facilities of D Gem Mount (DGM). The outlook is '**Negative**'.

Established in 2007, D Gem Mount (DGM) is a partnership firm engaged in the manufacture of diamond and gold jewellery at Coimbatore. The firm has 125 employees and the day-to-day operations are managed by Partners, Mr. Visvanathan and Mr. K. Selvam.

Key Rating Drivers

Strengths

- **Experienced management**

The firm is led by Partners, Mr. Viswanathan and Mr. K. Selvam who have experience of over two decades in the business.

- **Healthy financial risk profile**

The gearing levels continue to be comfortable at 0.56 times as on 31 March, 2017 (Provisional) as against 1.05 times as on 31 March, 2016 due to capital infusion by partners during the period under study. The total debt majorly consists of short term debt in the form of working capital loan from the bank. The coverage indicators of DGM improved to 5.28 times in FY2017 (Provisional) from 3.17 times in FY2016. The NCA/TD improved from 0.27 times during FY2015-16 to 0.74 times during FY2016-17 (Provisional).

Weaknesses

- **Decline in operating income**

In FY2015-16, DGM earned revenue of Rs.50.35 crore, a 12 per cent decline over the previous year. For FY2016-17 (Provisional), the revenue further declined to Rs.37.90 crore. The YTD (April 2017 to July 2017) revenue booked by the firm stood at Rs.12.00 crore (approx.)

- **Exposure of margins to volatility in raw material prices**

The margins of DGM are susceptible to volatility in the prices of gold and diamond and the same is determined by market forces.

- **Working capital intensive operations**

The operations of DGM are working capital intensive reflected in its Gross current assets of around 169 days as on 31 March, 2016 and 171 days as on 31 March 2017 (Provisional). This is majorly due to high

inventory days of 125 as on 31 March, 2017 (Provisional) and high debtor days of 87 as on 31 March, 2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the entity.

Outlook: Negative

SMERA believes that DGM will continue to benefit from the experience of the management and its established operational track record. However, the outlook is 'Negative' backed by continuous decline in the operating income during the period under study. The outlook may be revised to 'Stable' with increase and stability in scale of operations and improvement in the working capital management.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional) DGM reported profit after tax (PAT) of Rs.3.39 crore on operating income of Rs.37.90 crore compared with PAT of Rs.2.20 crore on operating income of Rs.50.35 crore for FY2015-16. DGM's net worth stood at Rs.8.75 crore as on 31 March, 2017 (Provisional) compared with Rs.8.02 crore a year earlier.

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
28-May-2016	Cash Credit	Long Term	INR 9.50	SMERA BB+ / Stable (Reaffirmed)
09-July-2015	Cash Credit	Long Term	INR 9.50	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA BB+ / Negative

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ABOUT SMERA

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