

Gold Star Diamond Private Limited: Reaffirmed

Facilities	Amount (Rs Crore)	Rating/Outlook
Export Packing Credit	17.41 (revised from 17.68)	SMERA A-/Stable (Reaffirmed)
Post Shipment Credit	35.68 (revised from 36.32)	SMERA A-/Stable (Reaffirmed)
Standby Line of Credit	6.00	SMERA A-/Stable (Reaffirmed)
Proposed Export Packing Credit/Post Shipment credit	10.91 (revised from 10.00)	SMERA A-/Stable (Reaffirmed)

SMERA has reaffirmed the long-term rating of **'SMERA A-' (read as SMERA A minus)** on the above mentioned bank facilities of Gold Star Diamond Private Limited (GSDPL). The outlook is **'Stable'**.

The ratings continue to derive comfort from the group's established track record of operations, experienced management and diverse revenue profile. The ratings also draw comfort from the group's healthy financial risk profile marked by strong networth and comfortable debt-protection metrics. However, the ratings are constrained by the working-capital-intensive operations and exposure to forex fluctuation risk.

For arriving at the ratings, SMERA has combined the business and financial risk profiles of GSDPL and Gold Star Jewellery Private Limited (GSJPL) referred to as the Gold Star Group. The consolidation is in view of the common management, similarity in the line of business, and significant operational and financial linkages between the companies.

Update

Gold Star Group's revenues increased from Rs.751.76 crore in FY2014-15 (refers to financial year, April 01 to March 31) to Rs.764.45 crore in FY2015-16. The operating profit margin has remained stable with 6.32 per cent in FY2015-16 (6.41 per cent in FY2014-15).

The group's financial risk profile continues to remain comfortable with gearing at 0.79 times as on March 31, 2016 (0.81 times as on March 31, 2015). The interest coverage ratio improved to 6.72 times in FY2016 from 3.42 times in FY2014-15. The total debt includes unsecured loans from related parties to the tune of Rs.41.62 crores as on March 31, 2016.

Gold Star Group's operations are working-capital-intensive, as reflected in its gross current assets of around 281 days for FY2015-16. The GCA days are high because of the groups' high inventory levels of around 100 days and debtor's days of 150-170 days. The group is also exposed to adverse movement in gold and diamond prices and foreign exchange fluctuation risk. The group also faces intense competition from other jewellery wholesalers in the gems and jewellery industry.

Rating Sensitivity Factors

- Efficient working capital management
- Scaling up of operations while maintaining profit margins

Outlook-Stable

SMERA believes that the Gold Star group will continue to maintain a stable outlook over the medium term owing to the established market position and experience of the management in the gems and jewellery industry. The outlook may be revised to 'Positive' in case the group achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of decline in the operating profit margin, or deterioration in the group's capital structure on account of higher-than-expected working capital requirements

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Group

The Gold Star group manufactures and exports plain gold and diamond-studded gold jewellery. The group is also engaged in the cutting and polishing of diamonds. The jewellery business is carried out through GSJPL, and the diamond business through GSDPL. The jewellery business accounts for ~75 per cent of the group's revenue with the diamond generating the balance 25 per cent.

For FY2015-16, the group reported profit after tax (PAT) of Rs.25.43 crore on operating income of Rs.764.45 crore, as compared with profit after tax (PAT) of Rs.18.55 crore on operating income of Rs.751.76 crore in the previous year.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
20 July, 2015	Export Packing Credit	17.68	SMERA A- (Assigned)	-	Stable
	Post Shipment Credit	36.32	SMERA A- (Assigned)	-	Stable
	Standby Line of Credit	6.00	SMERA A- (Assigned)	-	Stable
	Proposed Export Packing Credit/ Post Shipment Credit	10.00	SMERA A- (Assigned)	-	Stable

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ABOUT SMERA

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