

Press Release

Gold Star Diamond Private Limited

January 18, 2019

Rating Reaffirmed



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 70.00 Cr. |
| Long Term Rating | ACUITE A- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE A-' (read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.70.00 cr. bank facilities of GOLD STAR DIAMOND PRIVATE LIMITED (GSDPL). The outlook is **'Stable'**.

Gold Star Diamond Private Limited (GSDPL), incorporated in 1995, is engaged in the cutting, polishing and trading of diamonds. Gold Star Jewellery Private Limited (GSJPL), incorporated in 1990 is engaged in export of plain gold and diamond-studded gold jewellery. The jewellery segment accounts for 75 per cent of the group's revenue, and the diamond division for the balance 25 per cent. The group mainly exports to USA and Europe. GSDPL is led by Mr. Sanjay Shah and Mr. Ankur Shah.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Gold Star Jewellery Private Limited (GSJPL) and Gold Star Diamond Private Limited (GSDPL). Hereinafter refer to as 'Gold Star Group'. The consolidation is due to the common promoters, shared brand name, common treasury and financial synergies within the group. Extent of Consolidation : Full

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

The Gold Star group started business in 1990 to manufacture and export diamond-studded gold jewellery and diamond. The group primarily exports to the USA and Europe and has long term relations with some of the renowned wholesalers and retailers in the market. The group also deals with customers in Japan, Hong Kong, Australia, Canada, India, etc. The Directors have over two decades of experience in the gems and jewellery industry and are well supported by an experienced management team.

- Healthy financial risk profile**

The financial risk profile of the group is healthy marked by healthy net worth, comfortable gearing and coverage indicators. The tangible net worth of the group stood at Rs.358.58 crore (including quasi equity of Rs.43.52 crore) as on 31 March 2018 as against Rs.330.49 crore (including quasi equity of Rs.40.43 crore) as on 31 March 2017. Gearing (debt-equity) of the group stood comfortable at 0.54 times as on 31 March 2018 as against 0.52 times in the previous year. The coverage indicators of the group are comfortable marked by healthy coverage ratios and debt protection metric. Interest coverage ratio (ICR) of the group stood at 3.17 times for FY2018 as against 3.79 times for FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood comfortable at 1.04 times as on 31 March 2018 as against 1.18 times as on 31 March 2017. The debt-EBITDA of the group stood at 3.48 times for FY2018 as against 2.93 times for FY2017. Acuite believes the financial risk profile of the group to remain healthy in near to medium term backed by healthy net cash accruals and in absence of any major debt funded capex. Further, any deterioration in financial risk profile of the will remain a key rating sensitivity factor.

- Strong liquidity position**

The group has strong liquidity with healthy net cash accruals of ~Rs.30 crore every year and negligible

fixed debt obligations. The net cash accrual to total debt (NCA/TD) of the group remains stable at 0.20 times for FY2018 as against 0.19 times for FY2017.

Weaknesses

• Deterioration in working capital nature of operation

The working capital of the group has deteriorated in FY2018 over FY2017 marked by increase in Gross Current Asset (GCA) of 278 days for FY2018 as against 248 days for FY2017. The increase in GCA is mainly due to increase in receivable days and inventory days. The receivable days has increased to 165 in FY2018 from 149 in FY2017 and inventory days stood at 105 for FY2018 as against 89 in the previous year. Further, the average bank limit utilisation stood ~70 per cent in the last six months ended November, 2018. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

• Exposed to volatility in raw material prices, foreign exchange fluctuation risk

The group is exposed to volatility in gold and diamond prices. The raw material is procured from the domestic market and overseas market. The Gold Star group derives over 95 per cent of its revenues from export sales. Hence, the profits are susceptible to fluctuations in forex rates. Moreover, the group borrows dollar denominated debt in order to support operations. The group has efficiently managed its forex risk over the past three years despite fluctuations in exchange rates. Though, the group hedges the fluctuation risk by purchasing gold forwards, the revenues still remain susceptible to volatility in the dollar rates.

Outlook: Stable

Acuite believes that the Gold Star group will continue to maintain a stable outlook over the medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company 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 revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 801.45 | 870.45 | 764.45 |
| EBITDA | Rs. Cr. | 51.83 | 53.87 | 53.34 |
| PAT | Rs. Cr. | 25.34 | 25.27 | 25.42 |
| EBITDA Margin | (%) | 6.47 | 6.19 | 6.98 |
| PAT Margin | (%) | 3.16 | 2.90 | 3.33 |
| ROCE | (%) | 9.31 | 10.89 | 11.80 |
| Total Debt/Tangible Net Worth | Times | 0.54 | 0.52 | 0.55 |
| PBDIT/Interest | Times | 3.17 | 3.79 | 4.02 |
| Total Debt/PBDIT | Times | 3.48 | 2.93 | 2.83 |
| Gross Current Assets (Days) | Days | 278 | 248 | 280 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------|---|-----------|-----------------|-------------------------------|
| 03-Nov-2017 | Export Packing Credit | Long Term | 17.68 | ACUITE A-/Stable (Reaffirmed) |
| | Post Shipment Credit | Long Term | 36.32 | ACUITE A-/Stable (Reaffirmed) |
| | Standby line of credit | Long Term | 6.00 | ACUITE A-/Stable (Reaffirmed) |
| | Proposed Fund Based Facilities | Long Term | 10.00 | ACUITE A-/Stable (Reaffirmed) |
| 25-Oct-2016 | Export Packing Credit | Long Term | 17.41 | ACUITE A-/Stable (Reaffirmed) |
| | Post Shipment Credit | Long Term | 35.68 | ACUITE A-/Stable (Reaffirmed) |
| | Standby line of Credit | Long Term | 6.00 | ACUITE A-/Stable (Reaffirmed) |
| | Proposed Export Credit / Post Shipment credit | Long Term | 10.91 | ACUITE A-/Stable (Reaffirmed) |
| 20-Jul-2015 | Export Packing Credit | Long Term | 17.68 | ACUITE A-/Stable (Assigned) |
| | Post Shipment Credit | Long Term | 36.32 | ACUITE A-/Stable (Assigned) |
| | Standby line of Credit | Long Term | 6.00 | ACUITE A-/Stable (Assigned) |
| | Proposed Export Credit / Post Shipment credit | Long Term | 10.00 | ACUITE A-/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 |
|-------------------------------------|------------------|----------------|----------------|-------------------------------|-------------------------------|
| Export Packing Credit | Not Applicable | Not Applicable | Not Applicable | 14.56 | ACUITE A-/Stable (Reaffirmed) |
| Post shipment Credit | Not Applicable | Not Applicable | Not Applicable | 32.53 | ACUITE A-/Stable (Reaffirmed) |
| Standby Line of credit | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE A-/Stable (Reaffirmed) |
| Proposed Fund based Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 16.91 | ACUITE A-/Stable (Reaffirmed) |

Contacts

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|--|---|
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About Acuité Ratings & Research:

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