

Swaminarayan Diamonds Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	35.00	SMERA BB-/Stable (Assigned)
Adhoc Limit	3.00	SMERA A4 (Assigned)

SMERA has assigned long term rating of '**SMERA BB-**' (**read as SMERA double B minus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) to the abovementioned bank facilities of Swaminarayan Diamonds Private Limited (SDPL). The outlook is '**Stable**'.

The ratings draw comfort from the experienced management and moderate financial risk profile. However, the ratings are constrained by the modest scale of operations, uneven revenues, low profitability and working capital intensive operations. The ratings also factor in the highly competitive and fragmented gems and jewellery industry and volatility in raw material prices.

SDPL, incorporated in 2012 imports and trades in rough and polished diamonds. The promoters, Mr. Deepak Patel and Ms. Sweta Patel have around two decades of experience in the industry. The company has moderate financial risk profile marked by relatively high gearing of 2.29 times as on March 31, 2016. However, it mainly includes working capital borrowings. The interest coverage ratio stood at 1.10 times in FY2015-16. Further, the company has infused equity of Rs.5.00 crore in HY2016-17 which will improve the gearing going ahead.

SDPL has achieved operating income of Rs.195.95 crore in FY2015-16 as compared to Rs. 200.89 crore in FY2014-15. For HY2016-17, the company reported operating income of Rs.110.00 crore. The company's operating margin stood at 2.92 per cent while net profit margin was 0.14 per cent in FY2015-16. SDPL's operations are working capital intensive with gross current assets of 117 days in FY2015-16. The working capital cycle days are elongated at 105 days due to high debtors of 94 days in FY2015-16. The average cash credit limit utilisation has been high at ~99 per cent in the last six months ended September 2016.

However, the ratings are also constrained by the susceptibility of profit margins to volatility in the prices of diamonds and intense competition in the gems and jewellery industry.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Movement in capital structure and coverage indicators
- Efficient working capital management

Outlook-Stable

SMERA believes that SDPL will continue to maintain a stable outlook over the medium term owing to the promoters' extensive experience in the aforementioned industry. The outlook may be revised to Positive, if the company achieves sustained improvement in profit margins while maintaining healthy revenue growth. Conversely, the outlook may be revised to Negative in case of decline in profit margins. The outlook may also be affected by major deterioration in the capital structure on account of higher-than-expected working capital requirements.

Criteria applied to arrive at the rating:

- Trading Entities

About the Company

The Mumbai-based SDPL incorporated in 2012 was promoted by Mr. Deepak Patel and Ms. Sweta Patel. The company imports and trades in rough, cut and polished diamonds.

For FY2015-16, SDPL achieved net profit after tax (PAT) of Rs.0.28 crore on operating income of Rs.195.95 crore as compared to PAT of Rs. 0.17 crore on operating income of Rs. 200.89 crore.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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