

Shreeji Gems Limited: Assigned

| Facility | Amount (Rs. Crore) | Rating/Outlook |
|-------------|--------------------|-----------------------------|
| Cash Credit | 7.00 | SMERA BB-/Stable (Assigned) |

SMERA has assigned rating of '**SMERA BB-' (read as SMERA double B minus)** to the abovementioned bank facility of Shreeji Gems Limited (SGL). The outlook is '**Stable**'.

The rating draws comfort from the long track record of operations and experience of the management in the gems and jewellery industry. The rating also factors in the moderate financial risk profile. However, the rating is constrained by the modest scale of operations, uneven revenues, low profitability and working capital intensive operations. The rating also factors in the company's presence in a highly competitive and fragmented gems and jewellery industry and volatility in raw material prices.

SGL, incorporated in 1991 imports and trades in rough and polished diamonds. The promoters, Mr. Pankaj Patel and Mr. Nagjibhai Patel have around two decades of experience in the gems and jewellery industry. SGL has moderate financial risk profile marked by gearing of 0.85 times as on March 31, 2016 while interest coverage ratio stood at 1.41 times in FY2015-16.

SGL has achieved operating income of Rs.103.35 crore in FY2015-16 as compared to Rs.172.39 crore in FY2014-15. For HYFY2016-17, the company reported operating income of Rs.78.59 crore. The company's operating margin stood at 1.59 per cent while net profit margin stood at 0.29 per cent in FY2015-16.

SGL's operations are working capital intensive with gross current assets of 125 days in FY2015-16. The working capital cycle days are elongated at 105 days due to high debtors of 94 days during the period. The average cash credit limit utilisation has been high at ~98 per cent in the last six months ended September 2016.

However, the ratings are 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
- Effective working capital management

Outlook-Stable

SMERA believes that SGL will maintain a ___outlook and continue to benefit over the medium term from the promoters' experience in the diamond industry. The outlook may be revised to ___, if the company achieves sustained improvement in profit margins while maintaining healthy revenue growth. Conversely, the outlook may be revised to _____ 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

SGL incorporated in 1991 is a Mumbai-based company promoted by Mr. Pankaj Patel and Mr. Nagjibhai Patel. The company imports and trades in rough, cut and polished diamonds.

For FY2015-16, SGL achieved net profit after tax (PAT) of Rs.0.30 crore on operating income of Rs.103.35 crore as compared to net loss of Rs. 0.11 crore on operating income of Rs. 172.39 crore.

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ABOUT SMERA

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