

### Diabu Diamond Tools (India) Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	6.50	SMERA BB/Stable (Assigned)
Adhoc – Cash Credit	0.35	SMERA BB/Stable (Assigned)
Term Loan	1.10	SMERA BB/Stable (Assigned)
Letter of Credit	3.00*	SMERA A4+ (Assigned)

\*Letter of Credit includes sub-limit of Buyers Credit of Rs.3.00 crore.

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.10.95 crore bank facilities of Diabu Diamond Tools (India) Private Limited (Diabu). The outlook is '**Stable**'.

The ratings derive comfort from the company's established operational track record and experienced management. The ratings also note the comfortable financial risk profile and improving profitability. However, the ratings are constrained by the moderate scale of operations and working capital intensive business.

Diabu, incorporated in 1993, is engaged in the manufacture of diamond cutting tools. The company benefits from its experienced and technically qualified management. Mr. Vippen Sareen (Managing Director) and Mr. Venkatesh Maitreya (Director), have around 33 years and 18 years of experience respectively in the diamond cutting tools industry.

The financial risk profile is comfortable marked by net worth of Rs.14.95 crore as on March 31, 2016 as against net worth of Rs.14.48 crore as on March 31, 2015. The gearing (debt-equity) stood healthy at 0.72 times as on March 31, 2016. The interest coverage ratio (ICR) stood comfortable at 2.46 times as on March 31, 2016 as compared to 2.63 times as on March 31, 2015. The debt service coverage (DSCR) stood moderate at 1.84 times as on March 31, 2016. The ratings also note the improving profitability as reflected in the operating margins of 12.23 per cent, 11.86 per cent and 8.49 per cent for FY2016, FY2015 and FY2014 respectively.

However, the ratings are constrained by the moderate scale of operations with revenue of Rs.20.92 crore for FY2016 and Rs.20.88 crore for FY2015. Also, the company's operations are working capital intensive as reflected in the gross current asset (GCA) days of 329 days for FY2016 and 299 days for FY2015. The high GCA emanates from the high receivables days of 215 and high inventory days of 100 for FY2016. However, the average utilisation of working capital limits remains moderate at ~88 per cent for the past six months ending October, 2016.

#### Rating Sensitivity Factors

- Improvement in scale of operations and maintaining profitability
- Efficient working capital management
- Changes in the financial risk profile

#### Outlook-Stable

SMERA believes that Diabu will maintain a stable outlook over the medium term owing to its experienced and qualified management. The outlook may be revised to 'Positive' if the company reports significant improvement in revenue while maintaining operating profitability, leading to considerably large cash accruals resulting in a healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability leading to lower than

expected cash accruals, deterioration in the financial risk profile or higher than expected working capital borrowings.

#### Criteria applied to arrive at the ratings:

- Manufacturing Entities

#### About the Company

Diabu (the erstwhile Diabu India Private Limited) is a Bangalore-based subsidiary of DIABU Diamantwerkzeuge Heinz Büttner GmbH (Germany) incorporated in 1993. The company commenced commercial operations in 2004 to manufacture diamond cutting tools. The day-to-day operations are managed by the promoters, Mr. Vippen Sareen (Managing Director) and Mr. Venkatesh Maitreya (Director).

In FY2015-16, the company reported profit after tax (PAT) of Rs.0.47 crore on operating income of Rs.20.92 crore against PAT of Rs.0.74 crore on operating income of Rs.20.88 crore in the previous year.

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#### ABOUT SMERA

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