

Press Release

Leo Schachter Diamonds India Private Limited

11 Sept, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 150.00 Cr.
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 150.00 crore bank facilities of Leo Schachter Diamonds India Private Limited.

Leo Schachter Diamonds India Private Limited (LSDIPL) incorporated in 2008 by Indira Investments Limited (holding company) belongs to the Leo Schachter group of Israel. The company is engaged in the re-cutting (special diamond cut called 'Leo-cut') and export of polished diamonds to associate firms in USA and Israel. Polished diamonds for re-cutting are imported largely from Israel and also procured from the domestic market. Additionally, the company also manufactures and trades in rough and polished diamonds apart from liaisoning for group companies.

Key Rating Drivers

Strengths

• **Established track record of operations of the group with experienced management**

LSDIPL is part of the Leo Schachter Diamonds group established in 1952 at New York. The group is engaged in the cutting and polishing of rough diamonds with factories and offices in 11 countries around the globe. Mr. Ido Kariti, Director has more than three decades of experience in the gems and jewellery industry.

• **Moderate financial risk with high gearing**

The financial risk profile of LSDIPL is moderate marked by networth of Rs. 73.46 crore as on 31 March 31, 2017 (Provisional) compared to Rs. 68.92 crore as on 31 March, 2016. The gearing stood at 1.61 times as on 31 March, 2017 compared to 1.48 times as on 31 March, 2016. The working capital funding as on 31 March, 2017 is Rs. 118.0.9 crore (entire total debt) as against Rs. 102.03 crore in 31 March, 2016. The coverage indicators are moderate with interest coverage ratio (ICR) of 2.67 times for FY2016-17 (Provisional) and 2.28 times for FY2015-16.

• **Moderate scale of operations**

The scale of operations is moderate at Rs.626.61 crore for FY2015-16 compared to Rs. 571.56 crore in FY2014-15. The increase in revenue is on account of acquisition of new clients and increase in sales. In FY2016-17 (Provisional) the revenue fell to Rs. 465.18 crore owing to demonetisation. The revenues can be classified on the basis of income from Leo cut diamonds and other diamonds. Of the total revenue of Rs. 465.18 crore in FY2017, Leo Sales contributed 43.72 per cent (35.75 per cent in the previous year) with the balance from other diamonds.

Weaknesses

• Working capital intensive operations

LSDIPL's operations are working-capital-intensive, as reflected in its gross current assets (GCA) of 174 days for FY2016-17 and 150 days for FY2015-16. The extended GCA days are on account of high debtors as the company offers credit period of 90 days to customers. Further, the company stocks inventory of finished goods for about 75 days. The average utilisation of working capital limits stood at 92.19 per cent between January 2017 and June 2017.

• Customer and supplier concentration risk

LSDIPL is susceptible to customer and supplier concentration risk. The top 10 customers contributed 90.36 per cent of total revenue in FY2016-17 as against 88.56 per cent in FY2015-16. The top 10 suppliers accounted for 62.15 per cent of total purchases in FY2016-17 compared to 63.62 per cent in FY2015-16.

• Susceptibility to volatility in raw material prices and foreign exchange fluctuation risk

LSDIPL's sales comprised polished and cut diamonds. The gems and jewellery industry is heavily dependent on imports. Hence, the profitability of the firm is susceptible to volatility in diamond prices in the international market. Out of the total purchases, diamond imports account for more than 90 per cent of total purchases. The company imports rough and polished diamonds from Israel, Hong Kong, Botswana and Belgium. Further, more than 90 per cent of sales are to Israel, USA, Shanghai among others.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

About the Rated Entity - Key Financials

The company registered profit after tax (PAT) of Rs. 4.55 crore on operating income of Rs. 465.18 crore for FY2016-17 compared to Rs. 4.08 crore on operating income of Rs. 626.61 crore for FY2015-16. The networth stood at Rs. 73.46 crore as on 31 March, 2017 as against Rs. 68.92 crore as on 31 March, 2016.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/Outlook
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	150.00	SMERA A4+

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