

Press Release

Blue Star Diamonds Private Limited

06 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 660.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA A-**' (**read as SMERA A minus**) on the Rs.660.00 crore bank facilities of Blue Star Diamonds Private Limited (BSDPL). The outlook is '**Stable**'.

BSDPL, a partnership firm established in 1966 by Mr. Vasantlal Mehta, was reconstituted as a closely held company in 2008. The flagship entity of the Blue Star Group, the company is engaged in the business of cutting and polishing diamonds. The operations are managed by the second generation promoters - Mr. Akshay Mehta, Mr. Anuj Mehta and Mr. Ashit Mehta. While Mr Ashit M was instrumental in setting up the rough division in Antwerp in 1981 by the name M/s Arjav Diamonds NV, his elder brothers, Mr. Akshay M and Mr. Anuj M focused on the manufacturing and polishing operations to cater to national and international clients.

Arjav Diamonds (India) Pvt Ltd (ADIPL) was established in 1981 as a partnership firm and subsequently converted into a private limited company in 2007. ADIPL is mainly engaged in the distribution/trading of rough diamonds and also manufactures cut and polished diamonds. ADIPL has also been a DTC sight holder since 1991 through its holding Company Arjav Diamonds NV.

BSDPL has been a Diamond Trading Company (DTC) sight holder since 1994 apart from being a consistent buyer from other players since 2009.

Analytical Approach: SMERA has consolidated the business and financial risk profiles of BSDPL and ADIPL. The group is hereafter referred to as the 'Blue Star Group'. The consolidation is on account of a common management and similarities in the lines of business.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

The Blue Star group commenced business in 1966. The flagship entity, BSDPL was established by Mr. Vasantlal Mehta. The second generation promoters joined the business in the next decade. Currently, the third generation promoters are also actively involved in the business since the last two decades. The family business is also supported by a group of professionals. Since inception, the group is engaged in the procurement of roughs and cutting and polishing of diamonds and trading these diamonds to jewelers, retailers, chain stores and ecommerce companies across the globe.

Diversified geographical presence

Exports contribute around 75 per cent of the revenues of the group with the balance derived from the domestic market. The group has a wide geographic presence with sale of rough as well as cut and polished diamonds. The group exports diamonds to Hong Kong, Israel, Belgium, USA to name a few.

Established relation with suppliers

While ADIPL acquired sight holder status in 1991 (through its holding Company Arjav Diamonds NV), BSDPL received it in 1994. The Blue Star Group has three companies that are DTC sight holders apart from being on the selective list of Dominion Diamond Company and Alrosa Company Ltd. The group's association with the world's leading diamond mining companies has ensured steady supply of rough diamonds on a consistent basis.

Healthy financial risk profile

The financial risk profile of the group is healthy with strong net worth base, comfortable gearing levels and moderate debt protection metrics. The net worth levels of the group stood at around Rs. 904 crore as on 31 March, 2017 as against Rs. 834 crore in the previous year. To arrive at the net worth, SMERA has included Rs. 43.63 crore of unsecured loans from promoters which are subordinated to bank debt. The gearing levels are comfortable between 1.1 to 1.30 times in the past two years ended FY2017. The debt includes working capital borrowing of Rs. 948 crs and short term unsecured loan of Rs. 27.65 crore from promoters. The debt protection measures of the group stands at modest levels with interest coverage of 1.90 times and NCA/TD of 0.05 times as on 31st March, 2017 as against interest coverage of 1.77 times and NCA/TD of 0.05 times respectively as on 31st March'16. SMERA believes that the financial risk profile of the group will continue at healthy levels over the medium term backed by steady accruals and absence of major capex plans.

Weaknesses

Working capital Intensive nature of operations

The operations are working capital intensive marked by high gross current asset (GCA) days of 279 days in FY2017 as against 300 days in FY2016. This has been mainly due to high receivables ranging between 175 to 180 days in the past two years ended FY2017. The group also has debtors more than six months though they are mainly from group/associate companies. The inventory days of the group have also been high ranging between 98 to 123 days in the past two years ended FY2017. SMERA believes that the group's working capital intensity would continue over the medium term.

Exposure to foreign exchange fluctuation risk

The Blue Star Group derives around over 75 per cent of its revenue from export sales. On the other hand, the rough diamonds are entirely procured from imports. This results in partial natural hedge. The group also borrows dollar denominated debt in order to support operations.

Outlook: Stable

SMERA believes the Blue Star Group will continue to maintain a stable business risk profile over the medium term. The group will benefit from its established market position and management's experience in the diamond industry. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and higher-than-expected improvement in profitability and improvement in working

capital management. Conversely, the outlook may be revised to 'Negative' in case of further decline in the company's operating profit margin, or in case of deterioration in the company's capital structure on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17- the group reported Profit after tax(PAT) of Rs 29.47 crore as against operating income of Rs 2,823.98 crore against Profit after tax(PAT) of Rs 29.68 crore as against operating income of Rs 3,041.92 crore in FY 2015-16.

On standalone basis- For FY 2016-17-BSDPL reported Profit after tax (PAT) of Rs 21.56 crore as against operating income of Rs 1,613.52 crore against Profit after tax (PAT) of Rs 20.10 crore as against operating income of Rs 1,617.98 crore in FY 2015-16.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
EPC/PCFC/PSFL	Not Applicable	Not Applicable	Not Applicable	610.00	SMERA A-/Stable (Assigned)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A-/Stable (Assigned)

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ABOUT SMERA

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