

Press Release

Sumit Gems

24 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 8.00 crore bank facilities of Sumit Gems. The outlook is '**Stable**'.

The Mumbai-based, Sumit Gems (SG) was established in 1978 as a partnership firm by Shri Rajendra Manilal Shah and Shri Rajendra R. Shah. The firm is engaged in trading of loose diamonds (SI category). The customer portfolio includes the domestic market (55%) and the balance is exported to corporate manufacturers in the U.S. and Hong Kong.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The main promoters of the firm Shri Rajendra Manilal Shah and Shri Rajendra R. Shah possess four decades of experience in diamond industry. The extensive experience of the promoters has helped SG establish market position in various local as well as international markets which in turn benefits in securing repeated orders.

- **Reputed clientele**

Over the years, the firm has been able to establish long term relations with reputed players in the industry. The firm caters to KGK Diamonds India Private Limited, KBS Creations, Rosy Blue and Renaissance Jewellery Ltd. to name a few. SMERA believes that SG will continue to benefit from its experienced management and longstanding relations with clients.

Weaknesses

- **Working capital intensive operations**

SG has working capital intensive operations marked by Gross Current Assets (GCA) of 194 days in FY2017 compared to 198 days for FY2016. The GCA days are mainly dominated by high receivables of 149 days in FY2017 as compared to 142 days in FY2016. The creditor days are also stretched at 105 in FY2017 as against 110 in FY2016. The inventory holding period is low at 34 days in FY2017 as against 52 days in FY2016. SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Average financial risk profile**

The financial risk profile of the firm is characterized by low networth, moderate gearing and debt protection measures. The networth base of the firm stood at Rs.5.82 crore as on March 31, 2017 as compared to Rs.5.08 crore as on March 31, 2016. The gearing stood moderate at 1.65 times as on 31st March 2017 as compared to 1.93 times as on 31st March 2016. The total debt of Rs. 9.62 crore includes working capital borrowings of Rs.7.96 crore and unsecured loans from family members and relatives of Rs.1.66 crore. The interest coverage stood at 2.71 times in FY2017 as against 2.42 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.09 times in FY2017 as compared to 0.08 times in FY2016.

• Competitive industry

The gems and jewellery industry is driven by demand and supply which in turn is characterized by the presence of a large number of players resulting in pressure on margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of SG to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on SG will remain 'Stable' over the medium term from the promoters' experience in the diamond industry and healthy relations with reputed customers. The outlook may be revised to 'Positive' in case the firm achieves sustained improvement in profit margins while maintaining healthy revenue growth or in case of improvement in the firm's working capital management. Conversely the outlook may be revised to 'Negative' in case of steep decline in the firm's revenues and profitability or deterioration in the firm's financial risk profile or working capital management.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	52.45	51.37	49.52
EBITDA	Rs. Cr.	1.53	1.77	1.70
PAT	Rs. Cr.	0.68	0.66	0.60
EBITDA Margin	(%)	2.92	3.45	3.43
PAT Margin	(%)	1.30	1.28	1.22
ROCE	(%)	11.00	11.28	20.67
Total Debt/Tangible Net Worth	Times	1.65	1.93	2.23
PBDIT/Interest	Times	2.71	2.42	2.43
Total Debt/PBDIT	Times	5.33	5.22	6.00
Gross Current Assets (Days)	Days	194	198	201

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

CARE in its press release dated Mar 14, 2018 has moved the rating to 'Issuer not Co-Operating' category. The rating action contained in the release of CARE is as under- CARE has moved the ratings for the Rs. 8.00 crore bank facilities of Sumit Gems (SG) to the 'Issuer Not Cooperating' category. The rating is now denoted as 'CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable; ISSUER NOT COOPERATING*)'.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BB / Stable

**includes sub-limit of Pre-shipment (PCL/PCFC) of Rs. 8.00 crore, Post Shipment (FDBN) of Rs. 8.00 crore and FDBD/P of Rs. 5.00 crore.*

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ABOUT SMERA

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