

## Press Release

### Sumit Gems

September 27, 2019



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 8.00 Cr.
<b>Long Term Rating</b>	ACUITE BB-/ Outlook: Stable (Downgraded from ACUITE BB/Stable)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB**' (**read as ACUITE double B**) on the Rs. 8.00 crore bank facilities of SUMIT GEMS. The outlook is '**Stable**'.

The downgrade in reflects the continuous stress in the operating performance of the company reflected in declining operating revenues and decline in margins. The revenues of the company declined to Rs. 41.23 crore in FY2019 (Provisionals) as against Rs. 46.42 crore in FY2018 and Rs. 52.45 crore in FY2017. The operating margins declined to 3.07 per cent in FY 2019 (Provisionals) from 4.95 percent in FY2018, PAT margins declined to 1.52 per cent in FY2019 (Provisionals) as against 2.62 percent in FY2018.

Mumbai-based, Sumit Gems 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 firm's customer portfolio includes domestic market (55%) and the balance is exported to corporate manufacturers in the U.S. and Hong Kong.

### Analytical Approach

Acuité has considered standalone business and financial risk profile of Sumit Gems to arrive at the rating.

### 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 repeat orders.

Acuité, believes that SG will benefit from its established presence and experienced partners.

#### Weaknesses

- Declining Revenue and profitability;**

SG's revenues declined to Rs. 41.23 Crore in FY2019 (Provisionals) from Rs. 46.42 Crore in FY2018 and Rs. 52.45 Crore in FY2017. The decline in revenues was mainly due to impact of global economic conditions. The firm has traditionally been supplying majorly to global markets, and is now also exploring the domestic markets. The firms EBITDA has also declined to 3.07 percent FY2019 (Provisionals) from 4.95 percent FY2018, while its PAT margins stood at 1.52 percent as on FY2019 (Provisionals) as against 2.92 percent FY2018.

The ability to scale up the operations while maintaining profitability will be a key rating monitorable.

#### Liquidity – Adequate

The firm has an adequate liquidity position. The firm has NIL long term obligations as on FY2019 (Provisionals). The firms GCA days stood at 133 days for FY2019 (Provisional) as against 245 days in FY2018 with a current ratio of 1.77 times FY2019 (Provisionals) as against 1.25 times in

FY2018.

#### **Rating Sensitivity:**

- Improvement in revenues and profitability
- Improvement in financial performance

#### **Material Covenants**

None

#### **Outlook: Stable**

Acuité believes that SG will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues, while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	41.19	46.52	52.45
EBITDA	Rs. Cr.	1.31	2.30	1.53
PAT	Rs. Cr.	0.58	1.22	0.68
EBITDA Margin	(%)	3.18	4.95	2.92
PAT Margin	(%)	1.41	2.62	1.56
ROCE	(%)	11.86	16.18	11.00
Total Debt/Tangible Net Worth	Times	0.23	0.86	1.65
PBDIT/Interest	Times	3.41	4.00	2.71
Total Debt/PBDIT	Times	3.33	3.23	2.23
Gross Current Assets (Days)	Days	133	245	194

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

Not Applicable

#### **Any other information**

Not Applicable

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

#### **Note on complexity levels of the rated instrument**

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

#### **Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24 April 2018	Cash Credit	Long Term	8.00	ACUITE BB/ Stable (Assigned)
11 July 2019	Cash Credit	Long Term	8.00	ACUITE BB

				Issuer not co-operating*
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\*The issuer did not co-operate; Based on best available information.

#### \*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	6.50	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB-/ Stable (Assigned)

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#### About Acuité Ratings & Research:

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