

July 30, 2013 – Mumbai

Facilities/Instruments	Amount (Rs. Crores)	Rating
Export Packing Credit	198.88	SMERA BBB/Stable (Assigned)
Post-Shipment Credit	315.20	SMERA BBB/Stable (Assigned)
Standby Line of Credit	77.92	SMERA BBB/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BBB**' (**read as SMERA Triple B**) to Laxmi Diamond Private Limited's (LDPL) Rs.592.00 crores bank facilities. The outlook is '**Stable**'. The rating derives comfort from LDPL's long and established track record spanning four decades in the diamond business, strong distribution network, DTC sightholder membership, export gold cardholder status and healthy financial risk profile. However, the rating is constrained by the company's low and fluctuating profit margins, susceptibility to high foreign exchange fluctuation risk and working-capital-intensive nature of operations. Continued economic uncertainty in the company's key markets and industry further constrains the rating.

LDPL is the flagship company of the Laxmi Group. The company is engaged in the business of processing and trading of cut and polished diamonds. The promoters have around four decades of experience in the diamond industry. LDPL has three subsidiaries and five associate entities located in key global markets such as the USA, Hong Kong, Thailand, Belgium and India (majorly catering to group entities). LDPL is a DTC sightholder since 1995, which enables the company to receive a steady and assured supply of rough diamonds that are also sourced through the group entities and from the open markets in Belgium and South Africa. LDPL is also an export gold cardholder, which enables it to receive preference in availing packing credit in foreign currency. LDPL is considered as one of India's leading exporters of cut and polished diamonds. The company has a strong financial risk profile marked by healthy net worth (Rs.312.05 crores as on March 31, 2012, which has improved to Rs.358.86 crores as on March 31, 2013), moderate debt coverage and satisfactory return indicators. LDPL does not have any long term borrowings and its entire debt comprises working capital loans (total debt to tangible net worth ratio stands at 1.31 times as on March 31, 2013).

LDPL's operating income has grown by ~16 per cent in FY2012-13 to Rs.2455.97 crores (provisional figures) as compared with Rs.2115.51 crores in FY2011-12 (CAGR of 23 per cent over the last five years). The company's net profit margin declined to 1.87 per cent in FY2011-12 from 2.54 per cent in FY2010-11 on account of forex loss of Rs.63.45 crores (although the net profit margin has marginally improved to 1.90 per cent in FY2012-13 on account of forex gain of around Rs.6.00 crores). LDPL's operations are working-capital-intensive in nature, as reflected in its gross current assets (GCA) of around 177 days as on March 31, 2013. The GCA days are high on account of the company's stretched receivable period of 102 days and high inventory levels of around 70 to 80 days. As a result, the company's average bank limit utilisation has also been moderately high at around 85 to 90 per cent for the year ended March 31, 2013.

Rating Sensitivity Factors

- Sustainable revenue growth and improvement in profit margins
- Working capital management and bank limit utilization
- Continued uncertainty in the key markets

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Outlook: Stable

SMERA believes that LDPL will continue to benefit over the medium term from its established market position and the promoters' extensive experience in the gems and jewellery industry. The outlook may be revised to 'Positive' if the company achieves a sustained improvement in its profit margins while maintaining healthy revenue growth or if there is an improvement in the company's working capital cycle. Conversely, the outlook may be revised to 'Negative' if there is a significant decline in the company's profit margins or in case of a prolonged slowdown in the company's key markets. The outlook may also be affected by a major deterioration in the company's capital structure on account of higher-than-expected working capital requirement.

About the Company

LDPL was established in 1972 as a partnership firm by Mr. Vasantbhai H. Gajera and his brothers Mr. Chunibhai H. Gajera and Mr. Ashokbhai H. Gajera. In 2006, the firm was converted into a private limited company. LDPL is engaged in processing and trading of cut and polished diamonds and has presence in the domestic as well as overseas markets. The company has six processing units, of which four are located in Surat and two in Amreli. LDPL is also involved in the generation and distribution of power through a windmill located in Dhule, Maharashtra.

For FY2011-12, LDPL reported PAT of Rs.39.57 crores on operating income of Rs.2115.51 crores as compared with PAT of Rs.47.26 crores on operating income of Rs.1857.20 crores for FY2010-11. For FY2012-13 (provisional financials), LDPL reported PAT of Rs.46.77 crores on operating income of Rs.2455.97 crores. The company's networth stands at Rs.358.86 crores as on March 31, 2013 as compared with Rs.312.05 crores a year earlier.

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