**August 07, 2014**

| Facilities | Amount (Rs. Crore) | Rating |
|---|---|---|
| Export Packing Credit | 198.88 | SMERA BBB/Stable (Reaffirmed) |
| Post-Shipment Credit | 315.20 | SMERA BBB/Stable (Reaffirmed) |
| Standby Line of Credit | 77.92 | SMERA BBB/Stable (Reaffirmed) |

SMERA has reaffirmed the rating of **'SMERA BBB' (read as SMERA triple B)** on the Rs.592.00 crore bank facilities of Laxmi Diamond Private Limited (LDPL). The outlook is **'Stable'**.

The rating derives strength from the company's long track record of operations, widespread distribution network and strong financial risk profile. The rating factors in the benefits of the company's DTC sightholder membership. However, the rating is constrained by the decline in the company's operating profit margins. The rating is also constrained by the susceptibility of the company's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The rating factors in risks related to the company's working capital-intensive operations in an inherently cyclical gems and jewellery industry. The rating also factors the company's high dependence on sales made to group entities.

**Update**

LDPL's net sales have increased by ~8 per cent in FY2013–14 (refers to financial year, April 01 to March 31) to Rs.2,649.07 crore (provisional), as compared with Rs.2,448.50 crore in FY2012–13. The company's net sales have grown at a compound annual growth rate (CAGR) of 18 per cent over the last five years mainly on account of increase in revenues from diamond processing operations.

LDPL's profit margins are susceptible to volatility in raw material (rough diamond) prices and fluctuations in foreign exchange rates. The company is also exposed to the inherent cyclicality in the gems and jewellery industry. LDPL's operating profit margin has declined from 7.18 per cent in FY2010–11 to 5.32 per cent in FY2013–14 mainly on account of increase in employee cost. The company's net profit margin has also declined from 2.67 per cent in FY2010–11 to 1.77 per cent in FY2013–14.

LDPL is exposed to geographical concentration risk arising from high dependence on customers based in Hong Kong and UAE. The company derives ~42 per cent of its total revenues from sales made to group entities in Hong Kong, UAE, Belgium, Thailand and India.

LDPL's operations are working capital-intensive. The company's gross current assets (GCA) stand at ~167 days in FY2013–14 on account of high inventory holding of 90–100 days. Consequently, LDPL's average bank limit utilisation is high at ~96 per cent during January 2013 to May 2014. The company's ability to achieve better working capital management is a key rating sensitivity.

LDPL has a strong financial risk profile marked by net worth of Rs.402.53 crore and net cash accruals-to-total debt (NCA/TD) ratio of 0.11 times as on March 31, 2014. The company does not have any long-term debt on its books as on March 31, 2014. LDPL's interest coverage ratio is comfortable at 2.46 times in FY2013–14. Moreover, the company's debt-equity ratio is low at 1.26 times as on March 31, 2014. For arriving at the aforementioned debt-equity ratio, SMERA has considered the 0% Optionally Convertible Redeemable Preference Shares and Interest-Free Unsecured Loans from Promoters and Relatives as neither debt nor equity.

**Outlook: Stable**

SMERA believes LDPL will continue to maintain a stable business risk profile over the medium term. The company will benefit from its established market position and management's experience in the gems and jewellery industry. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. 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 company**

LDPL was established in 1972 as a partnership firm promoted by Mr. Vasantbhai H. Gajera, Mr. Chunibhai H. Gajera and Mr. Ashokbhai H. Gajera. In 2006, the partnership firm was converted into a private limited company named LDPL.

LDPL is engaged in processing and trading of cut and polished diamonds. The company caters to customers in the domestic and overseas markets. LDPL has six processing units, of which four are located in Surat and two are located in Amreli. The company is also involved in generation and distribution of wind power.

For FY2013–14 (as per provisional financial statements), LDPL reported profit after tax (PAT) of Rs.47.54 crore on operating income of Rs.2,686.96 crore, as compared with PAT of Rs.43.07 crore on operating income of Rs.2,460.35 crore for FY2012–13. LDPL's tangible net worth stood at Rs.402.53 crore as on March 31, 2014, as compared with Rs.355.12 crore a year earlier.

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