Sim Diam Private Limited (SDPL)

August 19, 2013 – Mumbai

Facilities/Instruments	Amount (Rs. Crores)	Rating
Packing Credit Foreign Currency / Post Shipment Foreign Currency *	**130.00**	**SMERA BB+/Stable (Assigned)**

** Interchangeable*

SMERA has assigned a rating of **'SMERA BB+' (read as SMERA Double B Plus)** to Sim Diam Private Limited's (SDPL) Rs.130.00 crores bank facilities. The outlook is **'Stable'.** The rating is constrained by the company's modest scale of operations, customer and geographical concentration risk, low profitability margins, susceptibility to foreign exchange fluctuation risk and working-capital-intensive nature of operations. The rating is further constrained by the continued economic uncertainty and strong competition in the company's key markets. However, the rating derives comfort from the company's experienced management, consistent revenue growth and moderate debt-protection metrics. The rating also factors in benefits derived from the group entity's DTC sightholder status.

SDPL is a mid-sized diamond merchant operating in a highly fragmented and competitive gems and jewellery segment. The company is exposed to customer concentration risk with top-five customers accounting for over 46 per cent of the total sales in FY2012-13. SDPL is also exposed to geographical concentration risk as exports to Israel and USA account for approximately 53 per cent of the total sales in FY2012-13. The company's profitability has remained low with net profit margin at 1.45 per cent in FY2011-12; however as per provisional financial statements net profit margin has improved to 1.75 per cent in FY2012-13. SDPL's operations are working-capital-intensive in nature, as reflected in its gross current assets (GCA) of around 189 days as on March 31, 2013 (173 days as on March 31, 2012). The GCA days are high because of the company's high inventory holding period of around 100-110 days and high receivables period of 70-80 days. As a result, the company's average bank limit utilisation has also been moderately high (over 95 per cent for the 12 months ended April 30, 2013). However, the company's working capital limits have been enhanced to Rs.130 crores in May 2013, which will relieve the liquidity pressure to some extent.

The promoters of SDPL have around two decades of experience in the diamond industry. The company reported revenues of Rs.257.03 crores in FY2012-13 as compared to Rs.183.75 crores in FY2011-12. Although SDPL's operations are relatively small in comparison to other diamond exporters, the company has registered strong revenue CAGR of 53 per cent over the last five years. SDPL has a moderate financial risk profile marked by moderately high leverage with low net worth (in the absence of any long term debts on books). The promoters have infused capital by way of equity and unsecured loans over the last two years to fund the company's higher working capital requirements. The company's overall leverage is expected to increase in FY2013-14 due to incremental working capital requirements. The company's interest coverage ratio has remained comfortable over the years and is expected to decline with increasing working capital limits. SDPL's rating also factors in the benefits derived from the group entity's (Niru Diamond Israel (1987) Limited) DTC sightholder status, which enables SDPL to receive a steady and assured supply of rough diamonds.

Rating Sensitivity Factors

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

Outlook: Stable

SMERA believes that SDPL will continue to benefit over the medium term from 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 in case of 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 requirements.

About the company

SDPL was established as a partnership firm in 1998 by Mr. Fatehchand Ratanlal Sethia and his son Mr. Roshan Fatehchand Sethia. In February 2006, the firm was converted into a private limited company. SDPL is engaged in the import of rough diamonds and export of cut and polished diamonds of various sizes ranging from 50 cents to 2 carats. The company does not have a processing unit and outsources the processing job (diamond cutting and polishing) to its sister concern Sim Manufacturing, Dahisar, Mumbai. SDPL was allotted DTC sightholder status in April 2012, through its Israel-based sister concern Niru Diamond Israel (1987) Limited. SDPL also procures rough diamonds from the open markets in Israel and India. The company's products are mainly exported to Israel, USA, UAE and Hong Kong.

For FY2011-12, SDPL reported PAT of Rs.2.67 crores on operating income of Rs.183.75 crores as compared with PAT of Rs.2.19 crores on operating income of Rs.147.91 crores for FY2010-11. For FY2012-13 (provisional financials), SDPL reported PAT of Rs.4.51 crores on operating income of Rs.257.03 crores. The company's net worth stands at Rs.35.77 crores as on March 31, 2013 as compared with Rs.23.22 crores a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Sanjay Kher Head Sales - Corporate Ratings Tel : +91-22-67141193 Cell : +91-9819136541 Email : sanjay.kher@smera.in Web: www.smera.in	Mr. Umesh Nihalani Head - Corporate Ratings Tel: +91-22-67141106 Cell: +91-9833651336 Email: umesh.nihalani@smera.in	Tel: +91-22-67141170 Email: ratingdesk@smera.in