

December 19, 2013

| Facilities | Amount (Rs. Crore) | Rating |
|--------------------------------------|--------------------|-------------------------------------|
| Export Packing Credit (EPC) | 4.50 | SMERA BB / Stable (Assigned) |
| Post Shipment Credit (PSC) | 12.00 | SMERA BB / Stable (Assigned) |
| Stand-by line of credit (SLC) | 1.50 | SMERA BB / Stable (Assigned) |
| Total | 18.00 | |

SMERA has assigned a rating of '**SMERA BB** (read as SMERA BB)' to the Rs.18.00 crore fund-based bank facilities of B. Manek Exports (BME). The outlook is '**Stable**'. The rating is constrained by the firm's modest operating scale, customer and geographical concentration risk, moderate profitability, susceptibility to foreign exchange fluctuation risk and working capital-intensive operations. The rating also factors in the continued economic uncertainty and intense competition in the firm's key markets. However, the rating derives comfort from the firm's experienced management, consistent revenue growth and moderate debt-protection metrics.

BME, established in 1997, is a partnership firm engaged in processing, trading and export of cut and polished diamonds. BME has a modest operating scale with net sales of Rs.57.87 crore in FY2012-13 (refers to financial year, April 01 to March 31). However, the firm registered strong revenue growth of 46 per cent (CAGR) over the last four years. BME is exposed to high customer concentration risk with top-five customers accounting for over 72 per cent of the firm's total sales in FY2012-13. BME is also exposed to geographical concentration risk as exports to Hong Kong and UAE account for approximately 72 per cent of the firm's total sales in FY2012-13. BME reported moderate net profit margin of 2.63 per cent in FY2012-13 as compared with 2.65 per cent in FY2011-12.

BME's operations are working capital-intensive. In FY2012-13, receivables were stretched at 145 days and gross current assets stood at 193 days. The firm's average bank limit utilisation was high at over 93 per cent (April 2013 to September 2013). BME operates in an intensely competitive and fragmented diamond industry. Moreover, the firm's profitability is highly susceptible to volatile diamond prices and fluctuating currency rates.

BME has an experienced management team. The firm's partners have around two decades of experience in the diamond industry. BME's financial risk profile benefits from moderate leverage (1.5 times as on March 31, 2013), healthy interest cover (3.5 times in FY2012-13) and absence of long term debt. The firm's net worth stood at Rs.9.03 crore as on March 31, 2013.

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Outlook: Stable

SMERA believes that BME will continue to benefit over the medium term from its promoters' extensive experience in the diamond industry. The outlook may be revised to 'Positive' in case the firm achieves a sustained improvement in revenues and profitability without a corresponding deterioration in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a decline in the firm's profit margins or in case of continued slowdown in the firm's key markets. The outlook is also sensitive to a major deterioration in the firm's capital structure.

About the firm

BME is a partnership firm established in 1997 by Mr. Maneklal Lathiya, Mr. Mansukh Lathiya and Mr. Bharat Lathiya. BME is engaged in processing, trading and export of rough, cut and polished diamonds. The firm exports diamonds of various sizes (ranging from 10 cents to 1 carat). BME has a factory unit in Surat, Gujarat. The firm's main export markets include Hong Kong, UAE, Belgium and Israel.

For FY2012-13, BME reported PAT of Rs.1.52 crore on operating income of Rs.57.87 crore, as compared with PAT of Rs.1.07 crore on operating income of Rs.40.19 crore for FY2011-12. Further, the firm reported operating income of Rs.47.28 crore during April 2013 to September 2013. BME's net worth stood at Rs.9.03 crore as on March 31, 2013, as compared with Rs.6.38 crore 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 |

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