July 02, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	**10.00**	**SMERA BBB-/Stable (Assigned)**
Term Loan	**10.00**	**SMERA BBB-/Stable (Assigned)**
Export Packing Credit/Packing Credit Foreign Currency	**6.00**	**SMERA BBB-/Stable (Assigned)**
Export Packing Credit/Packing Credit Foreign Currency	**8.00**	**SMERA BBB-/Stable (Assigned)**
Export Packing Credit/Packing Credit Foreign Currency	**4.80**	**SMERA BBB-/Stable (Assigned)**
FDBP/FUDBP	**16.00**	**SMERA BBB-/Stable (Assigned)**
FDBD/PSCFC	**7.20**	**SMERA BBB-/Stable (Assigned)**
Post Shipment Credit	**18.00**	**SMERA BBB-/Stable (Assigned)**
Forward Contract	**0.96**	**SMERA A3 (Assigned)**
Forward Contract	**0.24**	**SMERA A3 (Assigned)**

SMERA has assigned ratings of **'SMERA BBB-' (read as SMERA triple B minus)** and **'SMERA A3' (read as SMERA A three)** to the abovementioned bank facilities of Ritesh Export (RE). The outlook is **'Stable'**. The ratings are supported by the firm's experienced management, healthy revenue growth, healthy profit margins and moderate debt protection metrics. However, the ratings are constrained by the firm's exposure to customer and geographical concentration risk amidst continued economic uncertainties and intense competition in key markets. The ratings are also constrained by the susceptibility of the firm's profit margins to foreign exchange fluctuation risk. The ratings factor in risks related to the firm's working-capital-intensive operations.

RE, established in 1986, is a Surat-based partnership firm engaged in processing and export of diamonds. The partners of the firm have around two decades of experience in the diamond industry. RE's revenues increased from ~Rs.209.00 crore in FY2012–13 (refers to financial year, April 01 to March 31) to Rs.317.90 crore (provisional) in FY2013–14, a growth of ~52 per cent. Moreover, the firm's revenues increased at a strong compound annual growth rate (CAGR) of 16 per cent over the last five years. RE reported healthy operating margin of ~6.00 per cent (provisional) in FY2013–14. The firm's moderate financial risk profile is marked by debt-to-capital ratio of 1.4 times (provisional) as on March 31, 2014 and interest coverage ratio of 2.04 times (provisional) in FY2013–14.

RE is exposed to customer concentration risk. The firm derived ~70 per cent of its total revenues (in FY2013–14) from a few major customers. RE is also exposed to geographical concentration risk as exports to Hong Kong account for ~70 per cent of the firm's total sales in FY2013–14. RE's net profit of Rs.5.63 crore (in FY2013–14) is largely supported by forex gains of Rs.7.98 crore. The firm's operations are working-capital-intensive, as reflected in high level of inventory holding of ~127 days and extended receivables period of 117 days (average for last five years).

Outlook: Stable

SMERA believes RE will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the firm registers sustained improvement in profit margins while maintaining healthy revenue growth and achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the firm's profit margins, or in case of further stretch in firm's working capital cycle. The outlook may also be adversely affected by a major deterioration in the firm's capital structure on account of higher-than-expected debt-funded working capital requirements.

About the firm

RE, established in 1986, is a Surat-based partnership firm promoted by Mr. Shailesh Shah, Mr. Deepak Shah, Mrs. Mukesh Shah and Mr. Bharat Shah. RE is engaged in processing and export of cut and polished diamonds. The firm's main export markets include Hong Kong, Japan, Europe and USA.

For FY2013–14 (as per provisional financial statements), RE reported profit after tax (PAT) of Rs.5.63 crore on operating income of Rs.317.90 crore, as compared with PAT of Rs.5.48 crore on operating income of Rs.209.5 crore for FY2012–13. The firm's net worth stood at Rs.65.61 crore as on March 31, 2014, as compared with Rs.54.93 crore a year earlier.

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