Laxmi Diamond Pvt. Ltd

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term/ Short term Bank Facilities	890.85 (enhanced from Rs.771.80 crore)	CARE BBB+ / CARE A2 (Triple B Plus / A Two)	Reaffirmed
Short term Bank Facilities	60.15 (enhanced from Rs.28.20 crore)	CARE A2 (A Two)	Reaffirmed
Total	**951 (Rs. Nine hundred and fifty one crore only)**		

Rating Rationale

The ratings assigned to the bank facilities of Laxmi Diamond Pvt. Ltd. (LDPL) continue to derive strength from LDPL's vast experience in Gems & Jewellery (G&J) industry, integrated nature of operations, DTC sight holder status ensuring steady supply of key inputs i.e. rough diamonds, moderate gearing level and stable operational performance. The ratings are, however, tempered by high reliance on working capital related borrowings, susceptibility to volatile diamond prices as well as foreign exchange risk, strong competition from the organized as well as unorganized players in the G&J industry and geographic concentration risk, albeit strategic presence in different markets.

The ability of LDPL to sustain its revenue growth, improve its profitability while maintaining its capital structure and efficiently managing its working capital comprise key rating sensitivities.

Background

LDPL is the flagship company of Gajera Group promoted by Mr Vasantbhai Gajera, Mr Chunnibhai Gajera and Mr Ashokbhai Gajera. The Gajera family owns multinational diamond manufacturing and jewellery designing units. LDPL, initially incorporated as partnership firm in 1972, was later converted into a private limited company in 2006. LDPL is a DTC sight-holder since 1995. It has manufacturing units in Surat (Gujarat) and Amreli (Gujarat). LDPL is engaged in the manufacturing and selling of diamond and jewellery to domestic and overseas customers. LDPL is generally engaged in cutting and polishing of diamonds in the range of half point to 2 carat. Around 20-25% of the diamonds are GIA certified. The group also has presence in sale of branded jewellery segment with brand 'Cygnus' and 'Noor' in domestic markets. Apart from the business of manufacturing and selling diamonds and jewellery, LDPL is also engaged in the business of generation and distribution of power through wind mill.

Credit Risk Assessment

Experienced Promoters

The promoters of LDPL, Mr. Vasantbhai Gajera, and his brothers Mr. Chunnibhai Gajera and Mr. Ashokbhai Gajera have an experience of around four decades in diamond industry. LDPL was constituted as partnership firm in 1972 which was later converted into private limited company in 2006.

DTC sight holder status

LDPL is a DTC sight holder since 1995, it sources around 15-20% of its requirement directly from DTC. These long-term contracts ensure steady supply of quality rough diamonds and enable it to plan its production schedule with greater degree of certainty as the delivery timing and quality of supply of rough diamonds are reasonably well-known in advance to them. Thus, the company can effectively commit to purchase orders from its clients.

Strong polished diamond marketing network of the group

The Gajera Group has integrated operations across the diamond industry value-chain from sourcing rough diamonds to its cutting and polishing to manufacturing of diamond studded jewellery and their marketing. In its diamond division, LDPL has the requisite expertise to cut and process a range of rough diamonds across various shapes, sizes, colours, purity and carat sizes ranging from half point to two carat diamonds. LDPL has marketing affiliates in Hong Kong, UAE and Belgium. About 32% of the total sales of LDPL in FY15 were to marketing affiliates/group companies.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

Geographic concentration risk persists; albeit strategic presence in different markets

LDPL continues to face geographical concentration risk since 88% of the total sales in FY15 came from 5 countries with almost 40% sales being concentrated in Hong Kong which is currently facing sluggish demand.

Country wise sales:

Country	FY14		FY15	
	Rs. Cr.	%	Rs. Cr.	%
Hongkong	1,036.09	38.68	1,163.29	40.81
U.A.E	671.04	25.05	591. 24	20.75
India	355.52	13.27	301.73	10.58
U.S.A.	187.22	6.99	228.60	8.86
Belgium	163.31	6.10	204.72	7.18
Total	**2413.18**	**90.08**	**2,489.58**	**88.18**

However, this risk is mitigated to some extent as the company's customer base comprises known entities with whom the company has been dealing for several years. Further, the company's wide product range also helps it to adapt to changing demand dynamics.

Moderate gearing levels and stable operational performance

Overall gearing levels stood at 1.12x as on March 31, 2015 which was lower than 1.42x as on March 31, 2014. During FY15, the additional infusion in equity capital of Rs.70 crore subsequent to conversion of promoter loans and preference share capital to equity, as well as issue of additional equity shares, led to decline in the overall gearing. However, considering the preference shares issued for 12 years (as on Mar 31, 2014: Rs.30 crore and as on Mar 31, 2015: Nil post conversion to equity) and subordinated unsecured loans (as on Mar 31, 2014: Rs.36.03 crore and as on Mar 31, 2015: Rs.14 crore) as quasi equity, the adjusted overall gearing remained stable at 1.06x as on Mar 31, 2015 as compared to 1.08x as on Mar 31, 2014.

LDPL's total income increased by a modest 9.31% y-o-y during FY15. The PBILDT margin slightly improved from 5.32% in FY14 to 5.37% in FY15; however, the PAT margin decreased marginally from 1.78% in FY14 to 1.64% in FY15 on account of increased depreciation charge as per changes in Companies Act.

Working capital intensive operations with high utilisation of working capital limits;

Relatively long operating cycle and working capital intensive nature of business is an inherent characteristic of the G&J industry. Creditor days for FY15 stood at 63 days which was in line with FY14 levels (64 days). Collection period however improved from 77 days in FY14 to 71 days in FY15 on account of the measures taken by the management with respect to customer selection and debtor realisation. However, operating cycle increased from 93 days for FY14 to 102 days for FY15. The increase in working capital cycle was on account of rise in inventory days from 79 days in FY14 to 94 days in FY15 due to higher finished goods inventory. On account of weak demand conditions and margin pressures in Q4FY15, the company had consciously reduced the sales pace which had resulted in the rise in inventory levels. Average utilisation of working capital bank limits continued to be high at around 95% for the period September 2014-August 2015 with maximum utilisation close to 100% in almost 6 out of these 12 months, providing limited liquidity back-up.

Foreign Currency fluctuation risk

LDPL has a natural hedge since around 93% of the total raw materials consumed are imports and 91% of the total sales are exports. LDPL also covers the exposure by booking forward contract. On account of this the risk to foreign exchange volatility is limited; although it remains susceptible to it due to timing difference between payments and realizations.

Intense competition from large number of players in organised and unorganised sector in the CPD industry; and demand being linked to discretionary customer spending in key diamond jewellery markets such as USA, China, etc.

The Cut & Polished Diamond (CPD) industry in India is highly fragmented with presence of numerous unorganised players apart from some very large integrated G&J manufacturers leading to high level of competition. Although India plays a prominent role in G&J industry in terms of processing and consumption, it significantly lags behind in mining of gold and diamonds because of meager reserves. The Indian CPD industry is working capital intensive and primarily export-oriented.

As per the provisional data released by the Gems & Jewellery Export Promotion Council (GJEPC), total exports of G&J industry increased marginally by 3.7% y-o-y to USD 36.19 billion during FY15 (refers to the period from April 1 to March 31). While gold jewellery exports grew by 17% to USD 9.8 billion in FY15 (primarily on account of a lower base effect due to constrained supply of gold in FY14), the export of CPD fell by 5.5% to USD 23.16 billion during the year.

The dip in exports of CPD during FY15 was primarily on account of subdued demand from China/Hong Kong (the second largest diamond jewellery market in the world); although, there was steady demand for CPD from USA (the largest diamond jewellery market). The subdued demand for CPD has continued during Q1FY16 with export of CPD further falling by 7.5% on a y-o-y basis; and the major issue which the diamond trade has faced in the past six to nine months is pressure on its inherently thin profitability margins due to higher rough diamond prices on the one hand (because of largely oligopolistic nature of supply with few diamond mining companies controlling around 70% market share) and subdued polished diamond prices on the other hand (due to over-supply arising out of very large number of diamond cutting & polishing units amidst a sluggish demand scenario). Going forward, larger integrated players with strong sourcing relationships for raw material (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), those with superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy, are likely to exhibit more stable credit profiles.

Solar Power project

LDPL has undertaken development of a 10MW Solar PV plant in Pali district of Rajasthan. The EPC contract has been executed by Rays Power Experts Pvt Ltd. The total project cost was approximately Rs.70 crore which has been funded through internal accruals and promoter funds. LDPL has received sanction of a term loan of USD 8.50 mn (not exceeding Rs.51 crore) from EXIM Bank for this project which is expected to be disbursed in October 2015. The project was commissioned on Sep 26, 2015.

Business Risk

PPA with SECI for 10MW of power

LDPL has entered into a Power purchase agreement (PPA) for a period of 25 years from Commercial Operation Date (COD) with SECI to sell the power generated from the 10 MW solar power plant at the tariff of Rs.5.45/kWh. As per the PPA, minimum generation of energy by the plant should not go below 14.54 million kWh till the end of 10 years from COD and 13.68 million kWh for the rest of the period. SECI will purchase a maximum of 18.81 million kWh during a contract year.

EPC contract

The EPC contract is executed by Rays Power Experts. As a part of the contract they have also set up a transmission line of 3 km up to the nearest substation. Rays Power Experts are responsible for the operation and maintenance of the solar plant for a maintenance cost of Rs.0.50 crore p.a.

Low counter party risk

LDPL has entered into a PPA for 25 years with SECI. LDPL will raise a bill every month for the net energy supplied to SECI. The payments to LDPL shall be made by SECI within 30 days from the date of receipt of the tariff invoice. Further, in case of delay in payment of monthly bill beyond 30 days of the due date, a late payment surcharge shall be payable to LDPL at the rate of 1.25% per month on the outstanding balance. SECI shall provide LDPL a unconditional, revolving and irrevocable letter of credit through a scheduled bank in New Delhi having a term of 12 months and renewable every year for an amount equivalent to average monthly billing.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2013 (12m, A)	2014 (12m, A)	2015 (12m, A)
Working Results			
Income from Continuing Operations	2507.30	2687.64	2937.96
PBILDT	144.24	143.07	157.73
Interest	65.96	59.52	64.28
Depreciation	9.38	11.99	22.14
PBT	65.07	73.72	75.14

PAT	43.07	47.78	48.14
Gross Cash Accruals	52.75	60.53	67.63
Financial Position			
Equity Share capital	17.34	17.34	20.03
Net Worth	368.91	402.78	519.33
Total Debt	422.00	572.89	579.55
- **Working Capital**	422.00	506.34	562.36
- *Loans from promoters*	-	36.55	17.19
- Preference Shares	-	30.00	-
Key Ratios			
Profitability (%)			
PBILDT / Total OI	5.75	5.32	5.37
PAT / Total OI	1.72	1.78	1.64
ROCE	16.42	15.05	13.39
RONW	12.08	12.61	10.44
Solvency(times)			
Debt Equity Ratio	0.00	0.17	0.03
Overall Gearing	1.14	1.42	1.12
Adjusted Overall Gearing *	1.14	1.08	1.06
Total Outside Liabilities to Net worth	2.38	2.56	2.12
PBILDT Interest Coverage	2.19	2.43	2.48
PBIT Interest Coverage	2.04	2.22	2.13
Term Debt/GCA	0.00	1.10	0.21
Total Debt/GCA	8.00	9.46	8.57
Adjusted Total Debt/GCA *	8.00	8.37	8.36
Liquidity (times)			
Current ratio	1.25	1.31	1.31
Quick ratio	0.73	0.64	0.58
Avg. Collection Period (days)	88	77	71
Avg. Inventory (days)	65	79	94
Avg. Creditors (days)	57	64	63
Op. cycle (days)	96	93	102

** considering subordinated unsecured loans and preference share capital as equity*

Details of Rated Facilities

1.Long-term / Short-term facilities
Fund Based limits as at Aug 31, 2015 **(Rs. crore)**

Sr. No	Name of Bank	EPC*	PSC*	SLC*	Total
1	State Bank Of India	34.00	56.00	9.00	99.00
2	Andhra Bank	24.00	38.00	-	62.00
3	Axis Bank	12.00	23.00	-	35.00
4	Bank Of India	12.92	19.38	-	32.30
5	Canara Bank	18.80	35.20	-	54.00
6	Central Bank of India	22.40	42.00	-	64.40
7	Corporation Bank	25.92	51.84	-	77.76
8	Dena Bank	13.38	26.80	-	40.18
9	ICICI Bank	12.50^	25.00	-	25.00

10	State Bank Of Bikaner and Jaipur	15.00	30.00	-	45.00
11	State Bank Of Hyderabad	8.95	16.80	-	25.75
12	State Bank Of Mysore	9.45	17.55	-	27.00
13	State Bank Of Patiala	9.40	17.60	-	27.00
14	State Bank Of Travancore	12.72	23.63	-	36.35
15	Union Bank of India	12.00	23.00	-	35.00
16	IDBI Bank	12.50^	25.00	-	25.00
	Sub-Total	**230.94**	**470.80**	**9.00**	**710.74**
	Proposed Facilities (untied)				**29.11**
	Proposed stand-by line of credit				**100.00**
	Proposed term loan				**51.00**
	Total				**890.85**

** EPC – Export Packing Credit; PSC – Post Shipment Credit; SLC – Stand-by Line of Credit*
^ Sublimit of PSC

2.Short-term facilities (Rs. crore)

Sr. No	Name of Bank	Forward Contract (CE) Limits
1	State Bank Of India	5.40
2	Andhra Bank	6.28
3	Axis Bank	15.00
4	Bank Of India	0.77
5	Canara Bank	1.50
6	Central Bank of India	4.86
7	Corporation Bank	1.56
8	Dena Bank	2.98
9	ICICI Bank	5.00
10	State Bank Of Bikaner and Jaipur	5.00
11	State Bank Of Hyderabad	0.84
12	State Bank Of Mysore	2.66
13	State Bank Of Patiala	0.54
14	State Bank Of Travancore	1.56
15	Union Bank of India	1.84
16	IDBI Bank	5.00
	Sub-Total	**60.15**

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(This follows our brief rationale for entity published on 28 October, 2015)

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CIN - L67190MH1993PLC071691