ASIAN STAR COMPANY LIMITED (ASCL)
ASIAN STAR JEWELS PRIVATE LIMITED (ASJPL)
ASIAN STAR COMPANY LIMITED

Ratings

Facilities	Amount (Rs.crore)	Ratings[1]	Remarks
Short-term Bank Facilities (Fund Based)	1,182.50	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	**1,182.50**		

Based on the unconditional and irrevocable Corporate Guarantee provided by ASCL to its subsidiary ASJPL, CARE has assigned the following rating to the bank facilities of ASJPL:

1. Asian Star Jewels Private Limited

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Short-term Bank Facilities	30	CARE A2+ (SO) [A Two Plus (Structured Obligation)]	Reaffirmed
Total Facilities	**30**		

Rating Rationale

The rating reaffirmation of Asian Star Co Ltd (ASCL) derives strength from the vast experience of its promoters and management in the Gems & Jewellery (G&J) business, the company's robust global marketing network and its presence across the G&J value chain. The rating is further strengthened from ASCL's satisfactory financial performance during FY13 (refers to the period April 1 to March 31) and Q1FY14 and a geographically diversified revenue profile and its comfortable liquidity position.

The rating, however, continues to be constrained by ASCL's moderate leverage, its long working capital cycle, low profitability margins, the highly competitive nature of the G&J industry and the prevalent challenging macroeconomic environment.

The ability of ASCL to improve its overall profitability in a continuing challenging external environment would remain the key rating sensitivities. Furthermore, an improvement in the company's capital structure would also augment the overall financial profile of the company.

Background

Asian Star Company Ltd (ASCL) was set up as a partnership firm in 1971 by the Shah and Kothari families. In the year 1990, the management control of the company was vested with the Shah family and in 1995 it was subsequently converted to a public limited company. In 1996, ASCL was listed on BSE. ASCL is a recognized Four Star Trading House. ASCL's primary business involves cutting and polishing of less than three carat diamonds. The company also manufactures diamond-studded gold and platinum jewellery. ASCL is well integrated across the G&J value chain from the procurement of rough diamonds, diamond cutting & polishing to jewellery manufacturing and distribution directly to retailers across the globe. Presently, ASCL is engaged in jewellery retailing only through a single couture diamond boutique at Mumbai. The company has a strong global presence with 20 marketing arms spread across key diamond hubs located in Asia, Europe and America. ASCL's production facilities are located at Mumbai, Surat (GJ) and Hosur (TN). The company also has windmills in Maharashtra, Kerala and Tamil Nadu. In FY13, approximately 84% of sales were generated from its diamond division and approximately 16% from the jewellery division. Also, in FY13, approximately 66% of the total income was generated through exports of polished diamonds

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

Credit Risk Assessment

Experienced promoters and management

Mr Dinesh T Shah, Chairman of Asian Star Co Ltd has over 40 years of experience in the diamond trade. Mr Vipul Shah, CEO& MD, has vast experience in the G&J industry. He has been instrumental in establishing ASCL's global network and in developing ASCL's jewellery business and is the current Chairman of the Committee of Administration of the G&J Export Promotion Council (GJEPC). He is assisted by a team of well qualified and experienced directors, who are actively involved in various functions of the business.

Robust distribution and sourcing network

ASCL continues to have a strong global presence with four wholly owned subsidiaries in the US, UAE, Hong Kong and India. Besides the subsidiaries, ASCL has 20 marketing arms (previous year 23) spread across Asia, Europe and America. During FY13, around 53% of ASCL's total polished diamond sales were through its marketing arms and these marketing arms have enabled ASCL to establish its customer base across 40 countries. During FY13, the company primarily bought its rough diamonds requirement from the open market and only a miniscule percentage of its total rough diamond requirement was from procured from DTC (DeBeers) since it secured its DTC Sightholder status only at the end of FY13. Other

major rough diamond suppliers included its rough sourcing arms - Gemasia BVBA and Intergems Trading LLC, Harry Winston Diamond International and ALROSA-Nurba. For its jewellery division, the company buys gold from the open market and from local banks and it has a strong tie-up with Tanishq (Titan Industries) for supplying jewellery.

Presence across the G&J value chain

ASCL continues to be well integrated across the entire G&J value-chain from sourcing rough diamonds to cutting and polishing of rough diamonds to jewellery manufacturing, marketing and retailing. In its diamond division, ASCL has the requisite expertise to cut and process a range of polished diamonds in various shapes, sizes, colours and purity. ASCL's jewellery division has a vast product offering in its mass produced jewellery segment as well as a high value and handcrafted exclusive couture jewellery segment. ASCL also has a presence in the G&J retailing segment through its couture diamond boutique at Mumbai.

Long working capital cycle; albeit some improvement

During FY13, ASCL's working capital cycle saw a marginal decline from 174 days in FY12 to 142 days. Collection period and inventory holding days also improved at 91 days and 82 days respectively. ASCL's working capital cycle continues to remain high which is mostly in line with its industry peers.

Moderate leverage; albeit some deterioration and comfortable liquidity

Given the working capital intensity of its business as an inherent characteristic of the G&J industry, ASCL's overall gearing remained at a moderate level on account of its dependence on working capital borrowings. Overall gearing ratio of the company has increased from 1.49x as on March 31, 2012 to 1.75x as on March 31, 2013, primarily on account of a substantial increase in the working capital utilization. On a consolidated basis, ASCL's overall gearing stands at 1.66x as on end FY13. Nevertheless, the company's liquidity position remains comfortable with an average monthly working capital utilization of 74% in the last 12 months ending September 2013.

FY13 performance characterised by high revenue growth albeit with low profitability margins

During FY13, ASCL's total income increased by 39% y-o-y mainly on account of a good growth seen in both its C&P diamond and jewellery division which was further enhanced from the depreciation of the rupee. In FY13, ASCL's C&P diamond segment saw an increase of over 40% y-o-y while its jewellery segment saw an increase of 34% y-o-y during the same period.

However, ASCL's PBILDT margin continued to remain low and witnessed a marginal decline from 4.05% in FY12 to 3.77% in FY13 primarily on account of a decline in profitability in its diamond division. PAT margin however, remained flat at 1.77% during FY13.

Presence in a highly competitive G&J industry amidst a challenging business environment

The Indian Gems & Jewellery (G&J) industry is characterized by the presence of a large number of organized and unorganized players with high competition amongst them leading to pressure on margins. The C&P diamond industry in India is highly fragmented with the presence of numerous unorganised players apart from some very large integrated G&J manufacturers leading to high competitive intensity. Although India plays a prominent role in G&J industry in terms of processing and consumption, it significantly lags behind in the mining of gold and diamonds because of meagre reserves. The diamond industry in India is primarily export-oriented. During FY13, UAE was the largest exporting destination with 43% share followed by Hong Kong with 24% and USA with 16% share of overall G&J exports from India.

Total G&J exports have declined by 9.4% to US$39.03 billion y-o-y during FY2013, owing to 25.3% y-o-y decline in the exports of cut and polished (C&P) diamonds. Demand for C&P diamonds have remained subdued post November 2011 due to the sluggish demand in the western markets like Europe and USA as well as on account of imposition of a 2% import duty on C&P diamonds by the GoI since January 2012. Nevertheless, exports of C&P diamonds have gained by 32.2% during H1FY14 to US$ 10.26 billion on account of an improved demand, increase in trading activities and lower base effect. However, overall G&J exports during H1FY14 declined by 15.9% on a y-o-y basis to US$ 16.54 billion primarily on account of approximately 63% fall in the export of gold jewellery, medallions & coins which was mainly due to supply issues on account of government restrictions on gold imports to curb the rising Current Account Deficit.

CARE Research expects the G&J exports to decline in FY14 on account of the declining gold jewellery exports. However, CARE Research expects the G&J exports to grow moderately during the long term, driven by an increasing demand for C&P diamond exports.

Additionally, for the domestic market, given the volatility in the prices of rough diamonds, high gold prices, a weak Indian rupee and increased import levies, demand for G&J items are also expected to remain muted during FY14 and these factors are expected to weigh on industry profitability during the year.

Financial Performance

(Rs.Cr)

For the period ended / as at March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net Sales	1,455.92	1,529.09	2,120.38
Total Operating income	1,457.92	1,529.31	2,120.40
PBILDT	64.26	61.91	79.98
Interest	18.24	15.38	21.87
Depreciation	7.37	8.01	8.51
PBT	37.69	38.44	52.19
PAT (after deferred tax)	25.36	26.64	37.56
Gross Cash Accruals	33.26	34.17	45.68
Financial Position			
Equity Capital	10.67	10.67	16.01*
Networth	393.43	417.72	451.16
Total Debt	638.53	621.52	788.97
Key Ratios			
Growth			
Growth in Total income (%)	8.11	4.90	38.65
Growth in PAT (after D.Tax) (%)	-9.83	5.03	41.02
Profitability			
PBILDT/Total Op. income (%)	4.41	4.05	3.77
PAT (after deferred tax)/ Total income (%)	1.74	1.74	1.77
ROCE (%)	5.69	5.20	6.50
Average cost of borrowing (%)	3.04	2.44	3.10
Solvency			
Long Term Debt Equity ratio (times)	0.19	0.13	0.09
Overall gearing ratio(times)	1.62	1.49	1.75
Interest coverage(times)	3.52	4.02	3.66

For the period ended / as at March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Total debt/Gross cash accruals(years)	19.20	18.19	17.27
Liquidity			
Current ratio(times)	1.47	1.42	1.33
Quick ratio(times)	0.96	0.85	0.80
Turnover			
Average collection period (days)	105	107	91
Average creditors (days)	19	24	32
Average inventory (days)	83	91	82
Operating cycle (days)	168	174	142

*Bonus Issue in the Ratio of 1:2 by capitalization of reserves

Analyst Contact

Name: Ravi Kumar
Tel: 022-67543421
Email: ravi.kumar@careratings.com

(This follows our brief rational for entity published on 21 November 2013)

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra
Managing Director
Mobile : +91-98204 16002
E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President –Bank Loan & Instrument Rating
Mobile: +91-9819009839
mail: meenal.sikchi@careratings.com

Mr.Ankur Sachdeva
Vice President – Banking & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LTD.

HEAD OFFICE | 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 |Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457.

KOLKATA | **Ms. Priti Agarwal** | Cell: +91-98319 67110 | Tel: +91-33- 4018 1600/ 1602 | E- mail: priti.agarwal@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | **Mr. V Pradeep Kumar** | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 | Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | **Mr. Mehul Pandya** | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 | E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | **Ms. Swati Agrawal** | Cell: +91-98117 45677 | Tel: +91-11-2331 8701/ 2371 6199 | E-mail: swati.agrawal@careratings.com | 3rd Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

BENGALURU | **Mr. Dinesh Sharma** | Cell: +91 9900041975 | Tel: +080-4115 0445/ 4165 4529| Tele fax: 080-41514599 | E-mail: dinesh.sharma@careratings.com | Unit No.1101-1102, 11th Floor, Prestige Meridian II No-30, M .G. Road, Bengaluru -560001.

HYDERABAD | **Mr. Saikat Roy** |Tel: +91-40-40102030 |E-mail: saikat. roy@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029.

PUNE | **Mr. Rahul Patni** | Cell: +91-78754 33355 | Tel: +91-20- 4000 9000 |E-mail: rahul.patni@careratings.com | 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 015.

JAIPUR| **Mr. Rahul Jain** | Cell: +91-9314921496 | Tel: +91-0141-4020213/14 |E-mail: rahul.jain@careratings.com | 304, Pashupati Akshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park , Jaipur – 302016.