

October 03, 2024

Rose Gems: Ratings reaffirmed and withdrawn; simultaneously assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term- Fund based limits	24.00	0.00	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed and withdrawn
Long-term/Short-term- Unallocated limits	0.00	24.00	[ICRA]BBB-(Stable)/ [ICRA]A3; assigned
Total	24.00	24.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in the extensive experience of more than three decades of Rose Gems' (RG/the firm) promoters in the cut and polished diamonds (CPD) industry. The ratings also consider the firm's diversified customer base across domestic and international markets as well as its established relationships with suppliers of rough diamonds. Despite the decline in revenues in FY2024, which is expected to continue in FY2025 due to weak demand conditions, the financial profile of the firm is likely to remain comfortable owing to its controlled working capital cycle translating into limited dependence on external debt.

The ratings, however, remain constrained by RG's high inventory holding period as well as its thin profit margins owing to the low value additive nature of business. RG remains exposed to adverse fluctuations in rough diamond prices and stiff competition from the unorganised as well as organised players. The firm's profitability also remains susceptible to the foreign exchange fluctuation risks as it is a net importer, though a natural hedge through export and diamond dollar account (DDA) sales mitigate the risk to a certain extent.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that RG's credit profile is expected to remain comfortable, supported by its continued focus on remunerative transactions, and controlled working capital cycle, which will help limit its dependence on debt.

ICRA has withdrawn the rating assigned to the bank facilities of Rose Gems at the request of the company and based on the No Dues Certificate (NDC) received from the banker.

Key rating drivers and their description

Credit strengths

Extensive experience of partners – RG was incorporated in 1990, and its operations are managed by the members of the Italia family, who have experience of more than three decades in the CPD industry.

Satisfactory financial profile – Despite a modest, albeit improving net worth, the firm's capital structure continues to remain comfortable, as reflected by a gearing of 0.3 times as on March 31, 2024, due to limited reliance on external debt. Despite a decline in revenues in FY2024 due to weak demand conditions, the firm's profit margins improved, led by the management's decision to deal only in remunerative transactions and savings of outsourcing costs as the in-house production was sufficient to meet the polished requirements. Consequently, the debt coverage indicators, though moderated, remain satisfactory with an interest cover of 3.3 times in FY2024. Despite the expected decline in revenues in FY2025 due to weak demand conditions,

the financial profile of the firm is expected to remain comfortable owing to its controlled working capital cycle, translating into limited dependence on external debt.

Diversified customer base – RG’s customer base mainly consists of jewellery manufacturers and traders based out of domestic and international markets. The customer base remains diversified with the top 10 customers contributing 34% to the total revenues in FY2024. Besides, the firm maintains healthy relationships with DTC¹ sight holders and auction houses to ensure steady supply.

Credit challenges

High inventory holding – The firm has an elongated inventory and receivable period. The firm offers an average credit period of 120-150 days to its export customers, while 30 days of credit is offered to domestic customers. The inventory days, as on March 31, 2024, stood at 110, given the firm’s practice of holding inventory of about three months, and resulted in continued high working capital intensity of operations.

Vulnerability of profitability to adverse fluctuations in raw materials and foreign exchange rates – RG’s margins are susceptible to forex fluctuations. However, a natural hedge from exports and use of forward contracts mitigate the risk to a large extent. In addition, the DDA scheme availed by RG provides protection against currency fluctuation as the account is denominated in dollar terms. RG’s margins also remain susceptible to fluctuations in rough as well as cut and polished diamond prices.

Intense competition from players in the unorganised and organised sectors in the CPD business – The diamond industry is very fragmented, characterised by severe competition and low value addition. This exerts pressure on the profit margins of players in the industry.

Risks inherent in a partnership concern including that of capital withdrawal – Given RG’s constitution as a partnership firm, it is exposed to the risks including the possibility of capital withdrawal by the partners and dissolution of the firm upon death, retirement, or insolvency of the partners.

Liquidity position: Adequate

The firm’s liquidity is adequate, supported by the liquidity buffer available in the form of undrawn working limits (OD facility) worth Rs. 6.4 crore as of August 31, 2024. The company surrendered its existing working capital limit of Rs. 24 crore and currently has a reducing overdraft facility, with monthly repayments of Rs. 0.03 crore. The liquidity profile is further expected to remain supported in the absence of any debt-funded capital expenditure and external long-term debt.

Rating sensitivities

Positive factors – The ratings may be upgraded if the firm registers a significant growth in revenues and profitability while efficiently managing its working capital cycle on a sustained basis, along with a healthy improvement in credit metrics and liquidity position.

Negative factors – The ratings may be downgraded if there is a significant decline in sales and/or profitability or an elongation in the working capital cycle, adversely impacting the firm’s financial risk profile and/or the liquidity position. Specific trigger, which may lead to ratings downgrade include the interest cover deteriorating to below 2.8 times on a sustained basis.

¹ Diamond Trading Company

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Cut & Polished Diamonds Policy on withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the firm.

About the company

Rose Gems (RG), a partnership firm established in 1990, manufactures cut and polished diamonds. RG is an Export House (Single Star), certified by the Ministry of Commerce and Industry, Government of India. The firm deals in diamonds ranging between 1 cent and 5 carats. The firm's registered office is at Bharat Diamond Bourse, Mumbai and its manufacturing facility is in Surat, Gujarat.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	311.7	230.7
PAT	6.8	5.0
OPBDIT/OI	4.4%	4.9%
PAT/OI	2.2%	2.2%
Total outside liabilities/Tangible net worth (times)	1.2	0.8
Total debt/OPBDIT (times)	3.1	1.7
Interest coverage (times)	4.5	3.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs Crore)	Oct 3, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based, Working capital limits	Long term/ Short term	0.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed and withdrawn	24-Jul-23	[ICRA]BBB-(Stable)/[ICRA]A3	11-Aug-22	[ICRA]BBB-(Stable)/[ICRA]A3	08-Sep-21	[ICRA]BB+(Stable)/[ICRA]A4+
Unallocated limits	Long term/ Short term	24.00	[ICRA]BBB-(Stable)/[ICRA]A3	24-Jul-23	-	11-Aug-22	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short term - fund-based limits	Simple
Long-term/Short term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Working capital facilities	-	-	-	24.00	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed and withdrawn
-	Unallocated limits	-	-	-	24.00	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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