May 27, 2025

Star Rays: Ratings downgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term/short-term – Fund based – Working capital limits	360.00	205.00	[ICRA]BBB+(Stable) / [ICRA]A2; downgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	**360.00**	**205.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings downgrade reflects the pressure on Star Rays' (SR) credit profile amid the subdued global demand conditions in its key export markets as well as the adverse differential between rough and polished diamond prices. At the consolidated level, SR reported a 12% revenue decline over the last two years (FY2025 provisional estimates vis-a-vis FY2023), with moderation in operating profit margin (OPM) to 1.8-2.0%. Besides decline in polished prices, SR also suffered inventory losses in the overseas subsidiaries as it offloaded high-cost inventory at competitive prices in FY2024 and FY2025. This led to weakened debt coverage indicators, despite reduced debt levels. ICRA, however, notes that the firm significantly reduced its rough purchases and inventory holding in FY2025. The rough-polished price differential also improved marginally in H2 FY2025 (vis-à-vis H2 FY2024) led by improved polished prices and some correction in rough prices, though demand uncertainties given the recent US tariff imposition may restrict any further uptick. Growing acceptance of lab grown diamonds (LGDs) and inflationary conditions across the globe shall further result in muted demand for cut and polished diamonds (CPD) in the export market, translating into subdued coverage indicators. ICRA, however, draws comfort from SR's reduced reliance on debt as well as its adequate liquidity position as evident from its large unutilised bank lines.

The firm also 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 (forex) fluctuation risk due to its export-dominated revenue profile though a natural hedge by the import of rough diamonds and hedging via forward contracts mitigate the risk to a large extent. The ratings remain susceptible to the risk of capital withdrawals, given the partnership constitution of the firm.

The ratings, however, draw comfort from SR's established position in the CPD industry, extensive domain experience of its promoters of over four decades and presence in the online segment, which gives the firm easy access to a diversified global market. Besides, the collection risk for the firm is low as a large proportion of its sales are made on a cash basis or with a very low credit period. The firm also benefits from its status as a sightholder of De Beers as well as its association with other diamond mining majors, which facilitate sourcing of rough diamonds at competitive rates and enhances its position in the CPD industry.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that SR's credit profile is expected to remain supported by its increased focus on the domestic market as well as controlled inventory holding, which will limit its dependance on external debt. This, coupled with limited capex outgo, will translate into continued adequate liquidity position for the firm.

Key rating drivers and their description

Credit strengths

Long track record of promoters in the CPD industry – SR is a reasonably large-sized player in the Indian CPD industry with consolidated revenues of around Rs. 1,556 crore in FY2025. It is involved in manufacturing and exporting of polished diamonds.

The firm's large scale of operations can be attributed to around four decades of promoters' extensive domain experience in the CPD industry and established relationships with its customers and suppliers. Over these years, the firm has developed its core competence in manufacturing high-value CPDs, ranging from thirty cents to ten carats.

Sightholder status with De Beers and sourcing arrangement with other mining companies ensure steady supply of roughs at competitive rates – The CPD industry depends heavily on global miners like De Beers, Alrosa, and Rio Tinto, among others, for sourcing of rough diamonds. However, due to stringent qualification requirements of the miners, only a few companies across the globe have direct access to the supplies of roughs from these miners. A steady supply of roughs at competitive rates is important for CPD manufacturers. SR has long-term contracts for procuring fixed quantity from De Beers, and other mining entities. The firm procures 30-40% of its rough requirements from De Beers and other primary suppliers, and the balance from open market/secondary sources.

Comfortable capital structure, adequate liquidity position – Given its curtailed rough purchases and controlled working capital cycle in FY2025, SR has been able to limit its dependence on debt, leading to a comfortable capital structure with an estimated gearing of 0.2 times and total outside liabilities vis-à-vis the tangible net worth of 0.6 times as on March 31, 2025. SR's liquidity position is adequate, marked by sufficient headroom available in the form of undrawn limits of Rs. 185 crore as on April 30, 2025.

Credit challenges

Moderation in debt coverage indicators amid subdued demand conditions - The CPD industry is facing demand headwinds due to inflationary pressure in key consuming nations. This, along with continued increasing popularity of lab-grown diamonds, have resulted in adverse differential between rough and polished diamond prices. At the consolidated level, SR reported 12% revenue decline over the last two years, with moderation in operating profit margin (OPM) to 1.8-2.0%. Besides decline in polished prices, SR also suffered inventory losses in the overseas subsidiaries as it offloaded high-cost inventory at competitive prices. This led to weakened debt coverage indicators, as reflected in an interest cover of 2.3 times in FY2025 (as per provisional estimates), despite reduced debt levels. Going forward, the debt coverage indicators are expected to remain subdued, given the demand uncertainties led by the US tariff levy, which may additionally impact the recovery of polished prices, thus keeping the differential between rough and polished unfavourable in the near term.

Industry characterised by intense competition; revenues and profitability remain exposed to fluctuations in forex and rough diamond prices - The diamond industry is fragmented with low value addition and intense competition. SR faces intense competition from unorganised players as well as from a few established organised players, which limits its pricing power. As a substantial part of the revenues is denominated in foreign currency (primarily in USD), the firm is exposed to adverse fluctuations in the currency markets. However, a natural hedge resulting from the import of rough diamonds provides protection against foreign exchange rate fluctuations to an extent. Additionally, the firm hedges its foreign currency exposure through forward contracts, which mitigate the forex risk. The firm is also exposed to adverse fluctuations in the prices of rough and polished diamonds.

Capital withdrawal risk associated with partnership firms – SR, being a partnership firm, is exposed to the capital withdrawal risk, which may impact its net worth. Except for sizeable cash withdrawal of Rs. 51.0 crore made in FY2023 towards settlement of amount due to a retiring partner, there have not been substantial cash withdrawals in the recent past, though regular capital withdrawals happen every year.

Liquidity position: Adequate

The firm's liquidity position is adequate, supported by the headroom available in the form of undrawn working capital limits of Rs. 185.0 crore as on April 30, 2025. SR's average utilisation of working capital limits reduced to 32% during the 14-month period ended April 2025 from 45% for the 12-month period ended December 2023, despite reduction in banking limits. While retained cash flows were impacted due to lower cash flow from operations, controlled working capital cycle supported the same to a large extent. SR's debt profile, like most CPD entities, is short term in nature for meeting its working capital requirements. The firm availed emergency credit line guarantee scheme (ECLGS) term loan worth Rs. 15.0 crore in November 2021, which is repayable in five years (Rs. 3.8 crore each in FY2026 and FY2027 and Rs. 0.3 crore in FY2028). There are no major capital expenditure requirements over the near to medium term, which also provides some comfort to its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade SR's ratings, if there is a sustained improvement in its revenues and profitability, leading to an improvement in its financial risk profile.

Negative factors – Pressure on SR's ratings could arise, if there is a deterioration in its earnings or an elongation in working capital cycle, leading to a moderation in its financial profile and liquidity position. Besides, ICRA analyses various financial ratios to ascertain the credit profile of the entity and a sustained weakening in these ratios would be a negative factor. One such ratio that ICRA may look at for rating downgrade is the interest coverage ratio remaining below 3 times on a sustained basis (at the consolidated level).

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Cut & Polished Diamonds
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the firm. As on March 31, 2025, the firm had two subsidiaries and four step-down subsidiaries, which are enlisted in Annexure-2.

About the company

Star Rays, incorporated in 1980 as a partnership firm by Mr. Rajendrakumar Shah and Mr. Dilip Mehta, commenced manufacturing of polished diamonds in 1981. Mr. Ramesh Shah and Mr. Jitendra Shah joined the firm in 1985 to help the business grow further. Over the years, it has developed its core competence in the manufacturing of high-value diamonds, ranging from thirty cents to ten carats. The firm procures rough diamonds from primary sources (miners like De Beers, Dominion Diamond and Alrosa, among others) and from the secondary markets in Belgium and Israel, before selling polished diamonds in over 25 countries, including the domestic market. The firm's headquarters and manufacturing facilities are in Surat, Gujarat.

Key financial indicators (audited)- Consolidated

Consolidated	FY2023	FY2024
Operating income	1,759.4	1,205.5
PAT	60.4	8.2
OPBDIT/OI	5.7%	2.8%
PAT/OI	3.4%	0.7%
Total outside liabilities/Tangible net worth (times)	1.1	0.6
Total debt/OPBDIT (times)	2.2	4.5
Interest coverage (times)	4.2	1.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	May 27, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-Based – Working Capital Limits	Long term/Short term	205.00	[ICRA]BBB+(Stable) / [ICRA]A2	-	-	Feb-26-2024	[ICRA]A-(Stable)/ [ICRA]A2+	Mar-02-2023	[ICRA]A-(Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term/Short-term – Fund-Based – Working Capital Limits	Simple

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
NA	Fund-Based – Working Capital Limits	-	-	-	205.00	[ICRA]BBB+(Stable) / [ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Star Rays	Rated entity (Parent entity)	Full Consolidation
Star Rays Diamonds India Private Limited	Wholly-owned subsidiary	Full Consolidation
Star Solitaire INC	Wholly-owned subsidiary	Full Consolidation
S R Solitaire DMCC	Step-down subsidiary	Full Consolidation
Star Rays Diamond HK Limited	Step-down subsidiary	Full Consolidation
Star Rays Diamonds Botswana Pty Limited	Step-down subsidiary	Full Consolidation
Star Rays Diamonds Namibia Pty Limited	Step-down subsidiary	Full Consolidation

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