

January 02, 2023

## Rosy Blue (India) Private Limited: Ratings reaffirmed

### 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	1,030.00	1,030.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
<b>Total</b>	<b>1,030.00</b>	<b>1,030.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings continue to draw comfort from Rosy Blue (India) Private Limited's (RBIPL) established market position in the Indian cut and polished diamond (CPD) industry, extensive domain experience of its promoters and its professional management set-up. The ratings also favourably factor in the company's sightholder status and sourcing arrangements with miners including De Beers, Alrosa, Dominion, and Rio Tinto, among others, which lend it with a competitive advantage. Rosy Blue is a well-recognised brand globally and the company caters to reputed customers in the US and Europe markets.

The cut and polished diamond (CPD) industry witnessed a healthy demand for polished diamonds in FY2022, supported by strong retail offtake from the key consuming markets. RBIPL's revenues increased by 78% to Rs. 5,599 crore, with improvement in the operating profit margin (OPM) due to the operating leverage. The healthy sales traction continued in 7M FY2023 as well led by stable demand for small-sized diamonds. Along with better working capital management, the debt protection metrics improved in FY2022 and H1 FY2023. Notwithstanding the near-term headwinds in the form of global inflationary pressures, RBIPL's credit profile is expected to remain comfortable, supported by its healthy net worth position, prudent working capital management and comfortable liquidity position. RBIPL's liquidity position is underpinned by liquid balances of ~Rs. 153 crore as on October 31, 2022 (which includes free cash/bank balances, market value of listed investments and mutual funds) at the standalone level. The company had a cushion in the form of undrawn working capital limits of Rs. 258 crore as on October 31, 2022.

The ratings, however, remain constrained by RBIPL's high working capital intensity of operations primarily on account of high inventory holding period inherent to the CPD and jewellery business. The profit margins remain exposed to adverse fluctuations in diamond prices and stiff competition from the unorganised as well as organised players. The company'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 and options mitigate the risk to a large extent.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RBIPL's credit profile will remain supported by its prudent working capital management and established relationships with customers aided by the extensive experience of the promoters in the CPD industry.

## Key rating drivers and their description

### Credit strengths

**Long track record of promoters in the CPD industry and professional management** – RBPIIL is an established player in the diamond manufacturing business with a track record of over six decades, supported by the extensive domain experience of its promoters. Such extensive experience, coupled with a professional management team, enhances the competitive position of the company in the industry. Rosy Blue is a well-recognised brand globally and the company caters to reputed customers in the US and Europe markets.

**Sightholder status with De Beers and sourcing arrangement with mining companies ensure steady supply of roughs at competitive rates** – The CPD industry depends heavily on global miners such as De Beers, Alrosa, and Rio Tinto, among others, for sourcing rough diamonds. However, due to stringent qualification requirements of the miners, only a few companies across the globe have direct access to the rough supply. RBPIIL features among these top global companies and is a sightholder with De Beers, with access to rough supply from Alrosa, Dominion, Rio Tinto, among others. This lends competitiveness to the company's operations in the form of steady supply of quality roughs at competitive prices. Post the outbreak of the Russia-Ukraine war in February 2022, the US imposed sanctions on Russian-origin diamonds which restricted supplies from Alrosa. RBPIIL procured rough diamonds from the secondary sources to meet the shortfall.

**Improved credit metrics; healthy sales momentum in YTD FY2023** – The CPD industry witnessed a strong recovery in sales from H2 FY2021, led by improved demand in the export markets, after witnessing a significant contraction in Q4 FY2020 and H1 FY2021 due to the adverse impact of the pandemic. The demand for polished diamonds remained healthy in FY2022 given the strong recovery in retail offtake from the key consuming markets owing to fiscal stimulus announced by the governments, improving economic outlook, pent-up demand, and slower-than-anticipated return to other luxuries, among others. The company reported revenues of Rs. 5,599 crore in FY2022 against Rs. 3,154 crore reported in FY2021, reflecting a growth of 78%. With a significant growth in revenues, the OPM improved to 6.2% in FY2022 from 4.5% in FY2021 due to the operating leverage. Along with improved working capital management, this led to an improvement in the credit metrics of RBPIIL with interest coverage of 4.3 times [previous year (P.Y.) -2.4 times] and total debt-to-operating profit ratio of 2.8 times (P.Y. - 7.2 times). In 7M FY2023, the Group reported revenues of ~Rs. 4,000 crore, reflecting continued healthy sales momentum. Notwithstanding the near-term headwinds in the form of global inflationary pressure, RBPIIL's credit profile is expected to remain comfortable, supported by its healthy net worth position, prudent working capital management and comfortable liquidity position.

**Comfortable liquidity position** – The company's liquidity position remains comfortable with liquid balances of Rs. 153 crore (which includes free cash and bank balances, market value of listed investments and mutual funds) as on October 31, 2022 at the standalone level. The company also has a cushion in the form of undrawn working capital limits of Rs. 258 crore as on October 31, 2022.

### Credit challenges

**High working capital intensity of operations** – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income remains high in the range of 35-40% due to the inherently elongated working capital cycle of the CPD and jewellery business, primarily characterised by high inventory days. However, the company's utilisation of bank limits remained moderate at 72% during the 12-month period ended in October 2022 (at the standalone level), giving it an adequate liquidity buffer.

**Margins susceptible to fluctuations in forex rates and diamond prices** – As a substantial part of RBPIIL's revenues is denominated in foreign currency (primarily in USD), the company is exposed to adverse fluctuations in the currency markets. However, on most occasions, the exports are backed by an equivalent amount of imports and hence it enjoys a natural hedge

to a large extent. Additionally, the company hedges its foreign currency exposure through diamond dollar accounts and forward contracts and options, which mitigate the forex risk. The company is also exposed to adverse fluctuations in the prices of rough and polished diamonds.

**Industry characterised by intense competition from unorganised and organised players** - The diamond industry is fragmented, with low value addition and intense competition. RBIPL faces intense competition from the unorganised players as well as from a few established organised players, which limits its pricing power. However, the company's established presence in the industry and established brand name helped develop healthy business relationships with its customers as well as its suppliers.

## Liquidity position: Adequate

RBIPL's liquidity position remains **adequate** supported by liquid balances of Rs. 153 crore comprising free cash and bank balance along with investments in equity shares and mutual funds as on October 31, 2022, at the standalone level. The company has a sizeable cushion in the form of undrawn working capital limits (average utilisation stood at ~72% of the sanctioned limits of Rs. 1,030 crore to the extent of the available drawing power during the last 12 months that ended in October 2022 at the standalone level). The cash flow generation is expected to remain healthy in FY2023 aided by healthy revenues and profitability. As the company's debt profile, like most CPD and jewellery entities, is short term in nature for meeting its working capital requirements, it does not have any scheduled debt repayments. However, Orna Fine Jewellery Private Limited (OFJPL, a 77% subsidiary of RBIPL) availed ECLGS (emergency credit line guarantee scheme) term loans worth Rs. 25.0 crore in FY2021 and FY2022 which are repayable in five years (Rs. 3.7 crore in FY2023, Rs. 4.6 crore in FY2024 and Rs. 6.2 crore in FY2025). Apart from the maintenance capital expenditure (capex) of Rs. 5-10 crore, RBIPL does not have any major capex plans. OFJPL will incur capex primarily on furniture and fixtures towards opening new stores (under rental model). The capex is estimated at Rs. 1-2 crore per store (to be funded from internal accruals) and OFJPL plans to add 10-20 stores in FY2023 and FY2024 each.

## Rating sensitivities

**Positive factors** - The ratings may be upgraded if there is a sustained improvement in the scale of operations and profitability along with a reduction in the working capital intensity of operations, resulting in an improvement in RBIPL's credit metrics. An improvement in the interest cover to over 4.5 times on a sustained basis at the consolidated level will be a positive factor.

**Negative factors** - Pressure on RBIPL's ratings could arise if there is a deterioration in its earnings or a stretch in the working capital cycle, resulting in a deterioration in its financial profile and/or the liquidity position. Specific credit metric that could lead to ratings downgrade includes interest coverage remaining below 3.0 times on a sustained basis at the consolidated level.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Indian Gems &amp; Jewellery Industry – Cut &amp; Polished Diamonds</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2022, RBIPL had six subsidiaries and five step-down subsidiaries, which are listed in Annexure-2.

## About the company

Late Bhanuchandra Bhansali and Late Arunkumar Mehta incorporated the partnership firm, B. Arunkumar, in 1960 to cut and polish rough diamonds in Mumbai. The firm, which began as a contract manufacturer, soon started procuring roughs from the open market and manufactured CPDs in its own name. As the business expanded across geographies, the management adopted a brand name to encompass all its business operations. Consequently, the company (Everest Gems) was renamed as Rosy Blue (India) Private Limited (RBIPL). It is beneficially owned by the members of the Bhansali and Mehta families, along with certain minority shareholders. The Rosy Blue Group includes its subsidiaries, which are primarily involved in the jewellery manufacturing business. RBIPL's key subsidiaries/step-down subsidiaries include Orra Fine Jewellery Private Limited (rated [ICRA]BBB+(CE)/[ICRA]A2(CE)), Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., US. While Orra Fine Jewellery Private Limited is involved in manufacturing and retailing of gold and diamond-studded jewellery in the domestic market, Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., US, are involved in the manufacturing and wholesale exporting/selling of diamond-studded jewellery. In FY2021, RBIPL acquired a 100% stake in Leo Schachter Diamonds India Private Limited and renamed it as Rosy Blue Diamonds Private Limited, which also deals in CPD.

## Key financial indicators - Consolidated

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	3,153.5	5,598.9
PAT (Rs. crore)	71.0	214.6
OPBDIT/OI (%)	4.5%	6.2%
PAT/OI (%)	2.3%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.4
Total Debt/OPBDIT (times)	7.2	2.8
Interest Coverage (times)	2.4	4.3

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation  
All ratios as per ICRA calculations

## Key financial indicators - Standalone

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	1,863.0	3,573.5
PAT (Rs. crore)	48.7	104.0
OPBDIT/OI (%)	3.6%	4.5%
PAT/OI (%)	2.6%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3
Total Debt/OPBDIT (times)	9.8	3.2
Interest Coverage (times)	2.2	4.6

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation  
All ratios as per ICRA calculations

## Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
				02-Jan-2023	28-Jan-2022	08-Apr-2021	01-Sep-2020	12-Mar-2020	31-Jan-2020
1 Fund-based Working Capital Limits	LT/ST	1,030.00	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Negative)/[ICRA]A2	[ICRA]BBB+@[ICRA]A2@	[ICRA]BBB+(Stable)/[ICRA]A2

Amount in Rs. crore; LT – Long-term; ST – Short-term; @: placed on rating watch with negative implications

## Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	Fund-based working capital facilities	-	-	-	1,030.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Sr.	Entity Name	Ownership	Consolidation Approach
1	Rosy Blue (India) Private Limited	Rated entity	Full consolidation
2	Orra Fine Jewellery Private Limited	Subsidiary	Full consolidation
3	Inter Gold (India) Private Limited	Subsidiary	Full consolidation
4	Inter Gold Diamond Private Limited (Strike off w.e.f. March 24, 2022)	Step-down subsidiary	Full consolidation
5	Rosy Blue Diamonds Private Limited	Subsidiary	Full consolidation
6	Rosy Blue Jewellery Inc	Step-down subsidiary	Full consolidation
7	Tai Shan Gems Limited	Subsidiary	Full consolidation
8	Inter Gold Europe NV	Step-down subsidiary	Full consolidation
9	Sitara Diamond Private Limited	Step-down subsidiary	Full consolidation
10	Rosy Blue Foundation	Subsidiary	Full consolidation
11	Everest Gems DMCC (Strike off w.e.f. December 23, 2020)	Subsidiary	Full consolidation
12	Jewel Asia Limited (Strike off w.e.f. September 18, 2020)	Step-down subsidiary	Full consolidation

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