January 05, 2024

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
Total	**1,030.00**	**1,030.00**	

**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 sight holder status and sourcing arrangements with miners including De Beers, Artic Canadian Diamond Company (Dominion) and Rio Tinto Mining Corporation, 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. Its capital structure is satisfactory, characterised by below unity gearing at March 31,2023. RBIPL's liquidity position also remains comfortable, underpinned by cash and investment balances of ~Rs. 194 crore as on November 30, 2023 (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. 346 crore as on August 31, 2023.

Given the demand headwinds faced by the CPD industry due to the inflationary pressure in FY2024, RBIPL's revenues at the standalone level are expected to moderate on a YoY basis by 15-19% in FY2024. The revenue contraction, however, was lower than the industry level, given RBIPL's presence in mainly small-sized diamonds, where the extent of demand slowdown has been relatively lower. Along with unfavourable rough polished price differential and higher interest expenses (following the increase in benchmark lending rates), this will exert pressure on its profit margins and thus, credit metrices in FY2024. The adverse impact on the financial profile will be partially mitigated by RBIPL's prudent inventory management. The debt coverage indicators are also expected to improve from FY2025, with gradual increase in demand. This remains a key rating monitorable.

The ratings, however, remain constrained by RBIPL's high working capital intensity of operations inherent to the CPD and jewellery business. The profit margins also 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 mitigates 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 inventory 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

One of the leading CPD exporters with a good market position; established brand name and distribution network – RBPIL 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.

Sight holder 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 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. RBIPL features among these top global companies and is a sight holder with De Beers, with access to rough supply from Dominion and Rio Tinto, among others. This lends competitiveness to the company's operations in the form of steady supply of quality roughs at competitive prices. The company directly procures 80-85% (including procurement from associate companies) of its rough requirements from primary sources, which include sights and auctions.

Comfortable liquidity position and capital structure – The company's liquidity position remains comfortable with cash and investments of Rs.194 crore (which includes free cash and bank balances, market value of listed investments and mutual funds) as on November 30, 2023, at the standalone level. The company also has a cushion in the form of undrawn working capital limits of Rs. 346 crore as on August 31, 2023. Besides, RBIPL's debt profile on standalone and consolidated levels, like most of the CPD and jewellery companies, is largely short-term in nature for meeting its high working capital requirement. RBIPL's gearing remained comfortable at below unity as on March 31, 2023, at the standalone and consolidated levels. Moreover, the total outside liabilities to net worth remained comfortable at 1.1 times as on March 31, 2023. Going forward, the same is expected to remain comfortable.

Credit challenges

CPD industry facing demand headwinds; credit metrices expected to moderate in FY2024 – The CPD industry is facing demand headwinds due to inflationary pressure in key consuming nations. Along with unfavourable rough-polish price differential, this is expected to adversely impact the overall revenues and profitability in FY2024. In 7M FY2024, the overall CPD exports from India contracted by 30% on a YoY basis. While some improvement in CPD export volumes is expected in H2 FY2024, driven by onset of the festive/holiday season, ICRA expects the industry to witness revenue contraction of 22% in FY2024. Accordingly, RBIPL's revenues and profitability are expected to moderate in FY2024. Revenue contraction for RBIPL in FY2024 is likely to be lower than the industry at 15-19%, given its presence in small size diamonds and high customer stickiness.
Besides unfavourable rough polished price differential and higher interest expenses (following the increase in benchmark lending rates), this will exert pressure on its profit margins and thus, credit metrices in FY2024. The adverse impact on the financial profile will be partially mitigated by RBIPL's prudent inventory management. The debt coverage indicators are also expected to improve from FY2025, with gradual improvement in demand conditions. This remains a key rating monitorable.

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 businesses, primarily characterised by high inventory days. However, the company's utilisation of bank limits remained moderate at 68% during the 12-month period ended on August 31, 2023 (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 RBIPL'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 company's exports are backed by an equivalent amount of imports and hence it enjoys a natural hedge to a large extent. The company is also exposed to adverse fluctuations in the prices of rough and polished diamonds.

Exposed to 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 reputed 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. 194 crore comprising free cash and bank balance along with investments in equity shares and mutual funds as on November 30, 2023, at the standalone level. The company has a sizeable cushion in the form of undrawn working capital limits (average utilisation stood at ~68% 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 August 2023 at the standalone level). 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 repayment. Apart from the maintenance capital expenditure (capex) of Rs. 5-10 crore, RBIPL does not have any major capex plan.

ICRA has also consolidated the financials of Orra Fine Jewellery Private Limited (OFJPL), while arriving at the ratings. While OFJPL ceased to be a subsidiary of RBIPL with effect from July 3, 2023, RBIPL has provided a corporate guarantee for all its loans. OFJPL availed emergency credit line guarantee scheme (ECLGS), which is repayable in five years (Rs. 5.0 crore in FY2024, Rs. 6.7 crore in FY2025 and Rs. 6.5 crore in FY2026). 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 FY2024 and FY2025 each. Against this, the retained cash flows at the consolidated level are expected at Rs. 160-170 core in FY2024.

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 rating 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	Corporate Credit Rating Methodology Rating Methodology - Gems & Jewellery (Cut & Polished Diamonds) Rating Approach - Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the company. As on July 3, 2023, RBIPL had three subsidiaries and three step-down subsidiaries, which are listed in Annexure-2. While OFJPL ceased to be subsidiary of RBIPL w.e.f. July 3, 2023), RBIPL has provided a corporate guarantee for all of its loans. Hence ICRA has included the same in consolidated financials.

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 Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., US. Inter Gold (India) Private Limited and Rosy Blue Jewellery Inc., US, which are involved in 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. RBDPL will subsequently be merged with RBIPL as operations of both the entities are similar in nature.

Key financial indicators - Consolidated

	FY2022 (Audited)	FY2023 (Audited)
Operating Income (Rs. crore)	5,598.9	6,367.7
PAT (Rs. crore)	214.6	274.7
OPBDIT/OI (%)	6.2%	7.3%
PAT/OI (%)	3.8%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.1
Total Debt/OPBDIT (times)	2.8	2.2
Interest Coverage (times)	4.3	4.5

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

Key financial indicators - Standalone

	FY2022 (Audited)	FY2023 (Audited)
Operating Income (Rs. crore)	3,573.5	3,934.1
PAT (Rs. crore)	71.7	86.8
OPBDIT/OI (%)	4.5%	5.3%
PAT/OI (%)	2.0%	2.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1
Total Debt/OPBDIT (times)	3.2	2.8
Interest Coverage (times)	4.6	5.0

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jan 05, 2024	Jan 02 2023	Jan 28, 2022	Apr 08, 2021	Sep 01, 2020
1	Fund-based Working Capital Limits	Long Term/Short Term	1030.00	-	[ICRA]A-(Stable)/ [ICRA]A2+;	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2

Amount in Rs. crore

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**	-	-	-	1030.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rosy Blue (India) Private Limited	Rated entity	Full Consolidation
Inter Gold (India) Private Limited	Subsidiary	Full Consolidation
Inter Gold Diamond Private Limited (Strike off w.e.f. March 24, 2022)	Step-down subsidiary	Full Consolidation
Rosy Blue Jewellery Inc	Step-down subsidiary	Full Consolidation
Tai Shan Gems Limited	Subsidiary	Full Consolidation
Inter Gold Europe NV	Step-down subsidiary	Full Consolidation
Sitara Diamond Private Limited	Step-down subsidiary	Full Consolidation
Rosy Blue Foundation	Subsidiary	Full Consolidation
Entities to which RBIPL has provided corporate guarantee		
Orra Fine Jewellery Private Limited		Full Consolidation

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About ICRA Limited:

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