

Star Rays

February 20, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term, Fund-based Limits	325.00	360.00	[ICRA]A- (Stable)/[ICRA]A2+ Re-affirmed
Total	325.00	360.00	

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) and short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 360.00 crore (enhanced from Rs. 325 crore)¹ fund-based bank limits of Star Rays.² The mentioned fund-based bank facilities have been rated both on long-term as well as short-term scale. The total utilisation of these limits should not exceed Rs. 360 crore at any point of usage. The Outlook on the long-term rating is Stable.

Rationale

The re-affirmation of ratings takes into consideration the steady growth in operating revenues over the last five years, aided by increase in business volumes and the firm's continued focus on the higher value product segment. The ratings also continue to factor in favourably the domain expertise and long-standing experience of the promoters in the cut and polished diamonds (CPD) industry and the firm's sightholder status from De Beers along with its long-term contract with Dominion Diamond, assuring a steady supply of rough diamonds at competitive rates. ICRA notes the firm's well-established distribution network and presence in the e-commerce domain, which provides it an easier access to a diversified global market; low debtor risks as a large proportion of the sales are on cash basis and a moderate financial profile reflected in firm's gearing and coverage indicators.

The ratings are, however, constrained by the low operating margins and high competition inherent to the CPD industry and high customer concentration risks for the firm with almost half of the revenues coming from the top three customers; although its diversified end-user profile provides some comfort. The ratings are further constrained by the susceptibility of the operating margins and revenue growth to foreign exchange fluctuations, albeit the foreign exchange risks are partially offset by the import of rough diamonds, which provide a natural hedge. The ratings are also constrained by the firm's elevated working capital intensity levels, which majorly emanate from high inventory levels that are necessitated by the elongated operating cycle of the CPD business. Going forward, keeping the high working capital intensity levels under control would remain a key rating sensitivity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Outlook: Stable

ICRA believes Star Rays will continue to benefit from the extensive experience of its partners and the firm's established position in the diamond industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, coupled with better working capital management, strengthen the financial risk profile of the firm. The outlook may be revised to Negative if the firm's revenue and profitability witness significant decline due to demand slump and/or adverse price movements of rough and polished diamonds; and if cash accruals are lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Domain experience and longstanding promoter experience in the CPD industry spanning over three decades - Incorporated in 1980 as a partnership firm, Star Rays is an established player in the CPD industry with experience of over three decades. Over these years, the firm has developed its core competence in manufacturing high-value CPDs ranging from 30 cents to 5 carats.

Among leading CPD exporters in India, enjoys diversified global presence - The company is among the leading Indian CPD exporters with a relatively large scale of operations and enjoys a presence in key global markets like the US, Hong Kong and Belgium through its subsidiaries and business partners.

Sightholder status and long-term supply contract with miner - For sourcing rough diamonds, the company has fixed term contracts with De Beers and Dominion Diamond, which provides it with a wide variety as well as stable supply of rough diamonds at competitive rates.

Relatively low debtor risks - The increasing proportion of internet sales in recent years have enabled the company on a relatively lower receivable cycle over the general industry trend as indicated by the receivable cycle of 26 days. Such low receivables indicate low debtor risks and aid in reducing the working capital cycle.

Moderate capital structure and coverage indicators - The firm's capital structure (1.1 times) as of FY2017 and interest coverage ratio (3.9 times) for FY2017 continued to remain moderate on the back of strong revenue growth and stable operating profitability.

Credit challenges

Modest operating margins and high competition from both organised and unorganised players - The operating margins of the firm continue to remain modest (5.4% in FY2017) because of the inherently low value addition and fragmented nature of the CPD industry.

Customer concentration risks with close to half of its revenues generated by top three clients - Since almost half of its revenues come from its top three customers, the firm faces a high customer concentration risk; although its diversified end-user profile provides some comfort.

Operating margins susceptible to adverse foreign currency movements; natural hedge as well as other hedging tools like forward contracts, help mitigate the risks to some extent - With almost 90% of total revenues coming from export earnings, the firm's exposure to foreign currency has remained high over the years, exposing the company to the vagaries of currency markets. However, since the firm's exports are largely backed by imports on most occasions, it enjoys a natural hedge to a large extent. Additionally, the company also hedges its foreign currency exposures through forward contracts and options.

High working capital intensive nature of operations - The company's working capital intensity remained high in FY2017 (NWC/OI: ~37%) due to the inherently elongated nature of the CPD business.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Indian Gems & Jewellery Industry – Cut & Polished Diamonds](#)

About the company:

Star Rays was incorporated in 1980 by Mr. Rajendrakumar Shah and Mr. Dilip Mehta as a partnership firm, and commenced manufacturing polished diamonds from 1981. Mr. Ramesh Shah and Mr. Jitendra Shah joined the firm in 1985 to help in the further growth of the business. Over the years, the firm has developed its core competence in the manufacturing of high-value diamonds ranging from 30 cents to 5 carats. The firm sources rough diamonds through primary sources (miners like De Beers, Dominion Diamond, Alrosa, etc.) as well as from secondary markets in Belgium and Israel, before selling polished diamonds in over 28 countries, including the domestic market.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1,241.6	1,544.7
PAT (Rs. crore)	30.8	47.1
OPBDITA/ OI (%)	5.4%	5.4%
RoCE (%)	13.4%	16.7%
Total Debt/ TNW (times)	1.0	1.1
Total Debt/ OPBDITA (times)	3.6	3.9
Interest coverage (times)	3.6	3.9
NWC/ OI (%)	35.0%	36.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 June 2015	Date & Rating in FY2015
1	Fund-based limits	360.00	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term, Fund-based limits	NA	NA	NA	360.00	[ICRA]A-(Stable)/[ICRA]A2+ Source: Star Rays

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Jay Sheth

+91 22 6114 3419
jay.sheth@icraindia.com

Rushit Doshi

+91 22 6114 3422
rushit.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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