

June 23, 2010

CARE ASSIGNS 'CARE BB' AND PR4 RATINGS TO BANK FACILITIES OF VAIBHAV GEMS LTD.

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	172.74	'CARE BB' (Double B)	Assigned
Short-term Bank Facilities	20.00	'PR4' (PR Four)	Assigned
Total Facilities	192.74		

Rating Rationale

The ratings are primarily constrained due to weakened financial position of Vaibhav Gems Ltd. (VGL) on account of significant losses suffered by its overseas subsidiaries over the last two years resulting in huge write-off of investments and bad debts pertaining to those subsidiaries and the company resorting to debt restructuring. The ratings are further constrained due to continuing cash losses at consolidated level during last three years ending Mar.31, 2009 with significant exposure to subsidiaries having negative networth, high operating costs, concentration to US and European markets which are experiencing recession, and exposure to foreign exchange fluctuations. The ratings do factor in rich experience of promoters of VGL in Gems & Jewellery business, especially coloured gemstones, its end-to-end vertical integration from sourcing to end customer, and slight improvement in operations at the consolidated level during first 9-months of FY10. Turnaround in operations of all its subsidiaries and improvement in overall financial position and compliance with the CDR terms are the key rating sensitivities.

Company Profile

VGL, which initially came into being in 1981 as Vaibhav Enterprises, was incorporated in 1989. In 1996-97, the company came out with its IPO (Initial Public Offering). During FY06, VGL embarked upon an aggressive growth plan whereby it strengthened its global presence in the areas of procurement, manufacturing and marketing of coloured stones by acquiring STS Group of Companies. Further, VGL setup large scale jewellery retail operations in North America and Europe in the form of 'Brick & Mortar' retail stores and telemarketing through TV Channels.

As on Mar.31, 2009, VGL had 8 direct wholly-owned subsidiaries and 7 step down wholly-owned subsidiaries. However, during FY10 the company closed down five of its subsidiaries and 5 of its step down subsidiaries operating in various countries, which were primarily into retail store business. Presently, VGL has two business segments viz. wholesale operations and retail TV channel operations. VGL has been granted a restructuring package under the CDR mechanism of the Reserve Bank of India on Jun.17, 2009 with cutoff date of Dec.31, 2008

¹Complete definitions of the ratings assigned are available at www.careratings.com in other CARE publications.

On a standalone basis, during FY09, VGL reported a total operating income of Rs.170.96 crore (FY08: Rs.309.96 crore) and reported net loss of Rs.254.18 crore (FY08: Rs.184.07 crore). During 9MFY10 (ended Dec.31, 2009), VGL reported a total income of Rs.92.94 crore representing a dipped in growth of 42% compared to 9MFY09 and reported a net loss of Rs.11.47 crore.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

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