

Komal Exports: Reaffirmed

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	7.00	SMERA BB/Stable (Reaffirmed)

SMERA has reaffirmed the rating of '**SMERA BB**' (read as **SMERA double B**) assigned to the abovementioned bank facilities of Komal Exports (KE). The outlook is '**Stable**'.

The rating continues to derive comfort from the firm's experienced management, consistent revenue growth and comfortable financial risk profile. However, the rating is constrained by the modest scale of operations, working capital intensive business and susceptibility of profitability to fluctuations in prices of diamonds. The rating also factors in the fluctuating forex rates and stiff competition in the gems and jewellery industry.

Update

KE, established in 2006, is a Surat-based partnership firm that deals in diamonds. The operating income of the firm increased to Rs.85.88 crore in FY2015-16, as compared with Rs.55.33 crore in FY2014-15. As indicated by the management, the firm posted revenue of ~Rs.52.00 crore from April 2016 to August 2016. The growth in revenue is mainly on account of addition of new customers and improvement in sales realisations. The firm's operating margin declined to 2.71 per cent in FY2015-16 as compared to 2.86 per cent in FY2014-15 mainly due to increase in raw material cost as per cent of sales.

KE's comfortable financial risk profile is marked by debt-to-equity ratio of 1.22 times as on March 31, 2016 as compared to 1.34 times as on March 31, 2015. The interest coverage ratio remains at 3.25 times in FY2015-16 as compared to 3.23 times in FY2014-15.

However, KE has modest scale of operations. The working capital cycle stood at 48 days in FY2015-16 as compared to 43 days in FY2014-15. The debtor days increased to 84 days in FY2015-16 as compared to 33 days in FY2014-15. The inventory holding declined to 85 days in FY2015-16 from 128 days in FY2014-15. The average bank limit utilisation is at ~75 per cent for the period March 2016 to August, 2016.

KE's business is exposed to fluctuation in diamond prices and forex rates. Additionally, the firm is also exposed to stiff competition in the diamond industry.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Movement in capital structure
- Efficient working capital management

Outlook: Stable

SMERA believes that KE will continue to maintain a stable outlook and benefit over the medium term from the promoters' experience in the diamond industry. The outlook may be revised to 'Positive', if the firm achieves sustained improvement in profit margins while maintaining healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in profit margins. The outlook may also be affected by major deterioration in the capital structure on account of higher-than-expected working capital requirements.

Criteria Applied to arrive at the rating:

- Manufacturing Entities

About the Firm

KE, established in 2006, is a Surat-based partnership firm promoted by Mr. Pravinbhai Jasoliya, Mr. Hareshbhai Jasoliya, Mr. Hiteshbhai Jasoliya and others. The firm deals in diamonds and caters to jewellers and exporters in and around Surat. It imports rough diamonds, processes and sells cut and polished diamonds in the local market.

For FY2015-16, KE reported profit after tax (PAT) of Rs.1.44 crore on operating income of Rs.85.88 crore as compared with PAT of Rs.1.00 crore on operating income of Rs.55.33 crore for FY2014-15. The firm's net worth stands at Rs.7.17 crore as on March 31, 2016 as compared with Rs.3.94 crore a year earlier.

Rating History:

Date	Facility	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
11 Aug, 2015	Cash Credit	7.00	SMERA BB (Assigned)	-	Stable

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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