

Press Release

Komal Exports

December 28, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.13.00 Cr. (Enhanced from Rs.7.00 crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) to the Rs.13.00 crore bank facilities of Komal Exports (KE). The outlook is '**Stable**'.

The Surat-based, KE was established in 2006 as a partnership firm by Mr. Pravinbhai Jasoliya, Mr. Hareshbhai Jasoliya, Mr. Hiteshbhai Jasoliya, Mr. Keshavbhai Jasoliya and Mr. Hardik Jasoliya. KE is engaged in import of rough diamond, processing and selling of Cut & Polished Diamonds of clarity SI1 and SI2 to local players. KE imports raw material from Belgium and Dubai.

Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of KE to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters possess extensive experience in the range of more than two decades in the diamond industry. The extensive experience of the management has helped KE to establish huge customer base.

Acuité believes that the experience of the management is expected to support the improvement of the business risk profile over the medium term.

• Consistent growth revenues albeit decline in margin

The revenue has been growing consistently for the period under study i.e. FY2016 to FY2018. The firm registered a turnover of Rs.175.83 crore in FY2018, an improvement from Rs.113.85 crore in FY2017 and Rs.85.88 crore in FY2016. The increase in revenues is backed by increase in the number of orders on account of increase in customer base. Whereas, operating margins stood at 2.82 percent in FY2018 as compared to 3.43 percent in FY2017.

• Healthy financial risk profile

KE has healthy financial risk profile marked by net worth of Rs.16.86 crore as on 31 March, 2018 as against Rs.11.88 crore as on 31 March, 2017. The gearing improved to 0.45 times as on 31 March, 2018 as against 1.14 times as on 31 March, 2017. The debt of Rs.7.65 crore consists of unsecured loans from promoters' of Rs.4.04 crore, working capital borrowings of Rs.2.85 crore and term loan of Rs.0.75 crore. Interest Coverage Ratio (ICR) stood at 4.24 times in FY2018 as against 4.93 times in FY2017. Debt-EBITDA improved to 1.53 times as on 31 March, 2018 from 3.40 times as on 31 March, 2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.50 times in FY2018 as against 0.23 times in FY2017.

Acuité believes that the financial risk profile may remain at similar levels over the medium term as the firm has no substantial capex plan.

Weaknesses

• Working capital intensive cycle

KE has working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 171 in FY2018 despite improving from 207 days in FY2017. This is majorly due to the inventory holding period of 120 days in FY2018. Whereas, the debtor days stood comfortable at 51 days for FY2018. KE enjoys credit period of 160 days from its suppliers which moderates the working capital requirements. Acuité believes that KE's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

• Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

KE meets its requirement of raw material through imports from Belgium and Dubai; the prices for the same are highly volatile in nature. Hence, the firm is susceptible to foreign exchange fluctuation risk especially as the firm doesn't undertake any hedging. Any adverse change in the prices of the raw material and exchange rate may impact the profitability margins of KE.

Outlook: Stable

Acuité believes that the outlook on KE will remain 'Stable' over the medium term on account of the promoters' experience and consistent revenue growth in the diamond industry. The outlook may be revised to 'Positive' if the firm registers growth in profitability margins while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant decline in cash accruals or deterioration of its financial risk profile due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	175.83	113.85	85.88
EBITDA	Rs. Cr.	4.96	3.91	2.33
PAT	Rs. Cr.	3.33	2.91	1.44
EBITDA Margin	(%)	2.82	3.43	2.71
PAT Margin	(%)	1.89	2.55	1.68
ROCE	(%)	18.07	17.98	17.27
Total Debt/Tangible Net Worth	Times	0.45	1.14	1.22
PBDIT/Interest	Times	4.24	4.93	3.25
Total Debt/PBDIT	Times	1.53	3.40	3.69
Gross Current Assets (Days)	Days	171	207	172

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26-Nov-2018	Cash Credit	Long term	7.00	ACUITE BB+ (Indicative)
29-Sep-2017	Cash Credit	Long term	7.00	ACUITE BB+/ Stable (Upgraded)
19-Oct-2016	Cash Credit	Long term	7.00	ACUITE BB/ Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00 (Enhanced from Rs. 7.00 crore)	ACUITE BB+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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