

## Press Release

Komal Exports

March 16, 2020

Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 13.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.13.00 crore bank facilities of KOMAL EXPORTS (KE). The outlook is '**Stable**'.

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, SI2. KE imports raw material from Belgium, Dubai and Africa. The firm sells finished product majorly to local parties and jewelers and exports contributes around~5-10%.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KE to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management**

The partners, Mr. Pravinbhai Jasoliya, Mr. Hareshbhai Jasoliya, Mr. Hiteshbhai Jasoliya, Mr. Keshavbhai Jasoliya and Mr. Hardik Jasoliya, have experience of more than a decade in the diamond industry. The extensive experiences of the partners have helped KE to secure orders from existing and new customers. Acuite believes that the firm continues to benefit from the promoters' established presence in improving its business risk profile over the medium term.

- **Healthy financial risk profile**

The financial risk profile of KE is healthy marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth stood at Rs.19.51 crore as on March 31, 2019 as against Rs.16.86 crore as on March 31, 2018. The gearing of the firm stood at 0.67 times as on March 31, 2019 as against 0.45 times as on March 31, 2018. The total debt of Rs.13.03 crore as on March 31, 2019, consist of short term debt of Rs.10.07 crore, unsecured loans from directors and promoters of Rs.2.50 crore and term loans of Rs.0.46 crore. The debt protection metrics are also healthy marked by Interest Coverage Ratio and Debt Service Coverage Ratio (DSCR) stood at 3.91 times and 3.29 times as on March 31, 2019 as against 4.24 times for both as on March 31, 2018, respectively. Further, NCA/TD stood at 0.28 times for FY2019 as against 0.50 times for FY2018. Acuite believes that the financial risk profile of KE is expected to be at similar levels over the medium term as the firm is not planning any significant debt-funded capital expenditure programme over the medium term.

#### Weaknesses

- **Working capital intensive operations**

Despite of improvement, the operations of the firm have remained working capital intensive marked by Gross Current Assets (GCA) of 135 days in FY2019 as against 171 days in FY2018 (PY: 207 days). The GCA days are majorly dominated by high inventory holding period which is inherent in the gems and jewellery industry. The inventory holding period stood at 98 days in FY2019 as against 120 days in FY2018 (PY: 153 days). The receivable days stood at 33 days in FY2019 as against 51 days in FY2018 (PY: 51 days). Further, the working capital cycle is supported by extended credit from suppliers which moderates the working capital requirement of the firm and the same stood at 96 days in FY2019 as against 152 days in FY2018. Acuite believes the efficient working capital management will remain the key rating sensitivity.

• **Susceptibility of its profitability margins to volatility in diamond prices and fluctuations in forex rates**

KE operates in a highly competitive and fragmented industry characterised by large number of unorganised players affecting margins. The diamond industry is passing through turmoil at present due to the funding restrictions by the banks. Acuite expects established players like KE will be able to sustain the same on account of its established presence in the market.

**Rating Sensitivities**

- Substantial improvement in scale of operation while maintaining profitability margin.
- Stretch in working capital cycle lead to weakening of financial risk profile.

**Any Material Covenants**

None

**Liquidity position: Adequate**

The Liquidity profile of KE is adequate reflected by sufficient net cash accruals against its maturing debt obligations. The firm has reported cash accruals of Rs.3.67 crore in FY2019 and expected to generate cash accruals in the range of Rs.3.50-3.80 crore for the period FY2020-2022. The repayment obligations were stood around Rs.0.24 crore for FY2019 and expected to be around Rs.0.10 crore for the period FY2020-2022. The working capital operations of the firm are intensive marked by GCA days stood at 135 days for FY2019. The firm maintains unencumbered cash and bank balances of Rs.0.13 crore as on March 31, 2019. The current ratio of the firm stood at 1.29 times as on March 31, 2019. Acuite believes that the liquidity of KE is likely to remain adequate over the medium term.

**Outlook: Stable**

Acuite believes KE will maintain a 'Stable' business risk profile over the medium term based on the experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues as well as improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or elongated working capital cycle.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	166.19	175.83
PAT	Rs. Cr.	3.14	3.33
PAT Margin	(%)	1.89	1.89
Total Debt/Tangible Net Worth	Times	0.67	0.45
PBDIT/Interest	Times	3.91	4.24

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
28-Dec-2018	Cash Credit	Long Term	13.00	ACUITE BB+/Stable (Reaffirmed)
26-Nov-2018	Cash Credit	Long Term	7.00	ACUITE BB+ (Indicative)
29-Sept-2017	Cash Credit	Long Term	7.00	ACUITE BB+/Stable (Upgraded)

**\*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	ACUITE BB+/ Stable (Reaffirmed)

**Contacts**

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Simranjeet Kaur Rating Analyst Tel: 022-49294052 <a href="mailto:simranjeet.kaur@acuite.in">simranjeet.kaur@acuite.in</a></p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

**About Acuité Ratings & Research:**

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