

Press Release

Komal Exports

August 12, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.13.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (read as ACUITE triple B minus) from '**ACUITE BB+**' (read as ACUITE double B plus) on the Rs.13.00 crore bank facilities of Komal Exports. The outlook is '**Stable**'.

Reason for revision in the rating

The rating upgrade reflects strong rebound in sales in H2FY21 and Q1FY22, improvement in liquidity position, strong financial risk profile led by lower debt levels and absence of debt repayment obligation. Further, the operating income of the firm is expected to increase on account of established presence in domestic market.

About the rated entity

Komal Exports (KE) is a partnership firm, established in 2006 in Surat. The firm is promoted by Mr. Pravinhbai Jasoliya. The other partners are Mr. Hareshbhai Jasoliya, Mr. Hiteshbhai Jasoliya, Mr. Keshav bhai Jasoliya and Mr. Hardik Jasoliya. KE is engaged in import of rough diamond, processing and selling of Cut & Polished Diamonds of clarity SI1, SI2. In addition to this, the firm is also engaged in trading of rough diamonds from one source to other.

The firm exports polished diamonds to countries such as Hong Kong, Belgium, New York, Thailand and UAE. In addition to this, KE also sells the same in domestic market; majorly in Mumbai.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience management**

The partners, Mr. Pravinhbai Jasoliya, Mr. Hareshbhai Jasoliya, Mr. Hiteshbhai Jasoliya, Mr. Keshav bhai 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. Acuité believes that the firm will continue to benefit from the promoters' experience and established presence in improving its business risk profile over the medium term.

- **Satisfactory financial performance in FY21 with strong rebound in H2FY21 and Q1FY22**

The financial performance of the firm remained at satisfactory despite with total operating income of Rs.147.07 crore in FY21 (Prov.) against Rs.179.30 crore in FY20. The plant remained shut from April to mid of May and operations recommenced gradually from May end. The firm reported total sales of Rs.114.22 crore in H2FY21(Prov.) against Rs.32.85 crore in H1FY21(Prov.), hence witnessing strong rebound in H2FY21(Prov.). Further, KE has already reported sales of Rs.80.0 crore in Q1FY22.

On profitability front, EBITDA level declined from Rs.6.84 crore in FY20 to Rs.4.17 crore in FY21 (Prov.). EBITDA margin also declined to 2.84% during FY21 vis-à-vis 3.81% in FY20. However, the PAT remained at similar level at Rs.3.04 crore in FY21, with marginal decline from Rs.3.32 crore in FY20. The PAT margin however, improved due to lower capital charge i.e. interest cost.

Acuité believes that the revenue stream of the firm is expected to increase in medium with KE having

established presence in market.

- **Healthy financial risk profile**

The financial risk profile of the firm continues to remain healthy with debt-equity (partner's capital) ratio of 0.59 times as on March 31, 2021 (Prov.) as against 0.49 times as on March 31, 2020. The moderation is on account of marginal increase in unsecured loan infused by partners to support operations. The net-worth of the firm improved marginally to Rs.25.07 crore as on March 31, 2021 (Prov.) as against Rs.22.71 crores as on March 31, 2020, backed by accretion of profit to reserves. The Interest Coverage Ratio improved marginally to 2.48 times during FY21 (Prov.) as against 2.17 times during FY20 due to lower interest expense. However, the total outstanding liability/ Tangible Net worth remained at 2.27 times as on March 31, 2021 (Prov.) against 1.71 times as on March 31, 2020 on account of increase in outstanding trade payables due to COVID-19.

The firm does not have any term loan as on date, hence does not have any repayment obligation. Further, KE has not planned to avail any term loan during FY22-FY24.

Acuite believes that financial risk profile of the firm is expected to remain healthy backed by lower debt level and accretion of profit to reserves.

Weaknesses

- **Working capital intensive operations**

Komal Exports operates in a working capital intensive nature of operations wherein the Gross Current Asset (GCA) increased to 184 days as on March 31, 2021 (Prov.) from 109 days as on March 31, 2020. As the firm operates in highly competitive industry, it usually extends credit period of 30-60 days to its customer. The firm maintains inventory period of 94 days in FY21 (Prov.). However, the firm enjoys credit period from the suppliers in the range of 96 days to 120 days in FY2021 (Prov.) due to its long standing relation with the supplier. Due to COVID-19, there has been delay in realization of receivables, resulting in increase in debtors period from 48 days in FY20 to 83 days in FY21 (Prov.). The average working capital utilization remained highly utilised at about 84% for past 12 months ending June 2021.

- **Susceptibility of its profitability margins to volatility in diamond prices and fluctuation in forex rates**

KE operates in highly competitive and fragmented industry characterized by large number of unorganized players, thereby affecting margins. Further, as KE is also engaged in export, it is also vulnerable to fluctuation in foreign exchange rates

- **Risk of capital withdrawal**

The firm is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

Liquidity profile of Komal Exports is adequate, reflected by sufficient net cash accruals of Rs.3.36 crore during FY21. The firm is expected to generate cash accruals in the range of Rs.3.50-3.80 crore over the medium term. The firm does not have any external term loan, hence, there exist no repayment obligations. The average bank limit utilization stood high at 84% for the past 12 months ending June 2021. The firm has maintained unencumbered cash and bank balances of Rs.2.46 crore as on March 31, 2021 (Prov.). The current ratio of the firm stands modest at 1.39 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against no major debt repayments. The company has not planned to avail any term loan in near to medium term.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margin, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	147.07	179.30
PAT	Rs. Cr.	3.04	3.32
PAT Margin	(%)	2.07	1.85
Total Debt/Tangible Net Worth	Times	0.59	0.49
PBDIT/Interest	Times	2.48	2.17

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
16-Mar-2020	Cash Credit	Long Term	13.00	ACUITE BB+/Stable (Reaffirmed)
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)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Karnataka Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable))

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About Acuité Ratings & Research:

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