

Press Release

Komal Exports

October 27, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	13.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating at '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.13.00 crore bank facilities of Komal Exports. The outlook is '**Stable**'.

Reason for reaffirmation

The rating reaffirmation reflects strong rebound in sales in FY 2022, 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 Company

Komal Exports (KE) is a partnership firm, established in 2006 in Surat. The firm is promoted by Mr. Pravinbhai Jasoliya. The other partners are 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. 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

Acuite 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. 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 will continue to benefit from the promoters' experience and established presence in improving its business risk profile over the medium term.

Improvement in scale of operations

Firm is engaged in manufacturing and sales of cut and polished diamonds and trading of rough diamonds. In FY 2022 firm reported revenue of Rs. 344.62 Cr and has exceeded Acuite's projections by 91%. After witnessing decline in revenue in FY 2021 wherein operating income stood at Rs. 147.07 Cr, firm has registered growth of 134% in FY 2022 which was majorly driven by export of gems. Firm's exports accounted for 7.34% of total revenues however the domestic customers to whom the firm sells are themselves engaged in export of gems and jewellery hence this contributed to sharp increase in revenues.

Healthy financial risk profile

Firm's financial risk profile is healthy marked by moderate net worth and comfortable debt protection metrics. Tangible net worth as on 31 st March 2022 stood at Rs. 27.98 Cr as against Rs. 26.01 Cr in FY 2021. In FY 2022 after payment of income tax, partners have withdrawn Rs. 3.17 Cr from capital account. Total debt of Rs. 8.43 Cr in FY 2022 consists of Rs. 1.35 Cr of unsecured loans and Rs. 7.08 Cr of working capital borrowings. Debt to Equity ratio improved and stood at 0.30 times in FY 2022 as against 0.49 times in FY 2021. Improvement in gearing was result of decline in working capital borrowings. Interest Coverage Ratio has improved to 3.42 times in FY 2022 as against 2.38 times in FY 2021 while Debt to EBITDA has improved to 1.17 times in FY 2022 from 2.39 times in FY 2021. Since the company has no debt funded capex plan hence the financial risk profile is expected to remain healthy in the near term.

Weaknesses

Working capital intensive operations

Firm has shown improvement in working capital operations wherein the GCA days have moderated from 178 days in FY 2021 to 104 days in FY 2022. The moderation is on account of decline in inventory holding and debtor realization period. Inventory holding period has moderated from 87 days in FY 2021 to 35 days in FY 2022 due to faster movement of goods as a result of improvement in sales. Debtor days have declined from 82 days in FY 2021 to 58 days in FY 2022. Creditor period stood at 80 days in FY 2022. As a result, bank limit utilization has remained comfortable at 40.09% for the period between February 2022 to August 2022.

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

Firm has adequate liquidity reflected by sufficient net cash accruals of Rs. 5.11 crore during FY 2022. The firm is expected to generate cash accruals in the range of Rs. 4.43 – 4.54 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 comfortable at 40.09% for the period between February 2022 to August 2022. Unencumbered bank and cash balance stood

at Rs. 5.79 Cr. Rs. 1.5 Cr of Fixed deposit investment is lien marked.

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.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	344.62	147.07
PAT	Rs. Cr.	4.81	2.77
PAT Margin	(%)	1.40	1.88
Total Debt/Tangible Net Worth	Times	0.30	0.49
PBDIT/Interest	Times	3.42	2.38

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

None

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Aug 2021	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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+ (Issuer not co-operating*)
29 Sep 2017	Cash Credit	Long Term	7.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
19 Oct 2016	Cash Credit	Long Term	7.00	ACUITE BB Stable (Reaffirmed)
11 Aug 2015	Cash Credit	Long Term	7.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karnataka Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Stable Reaffirmed

Contacts

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About Acuité Ratings & Research

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