

Press Release

H K Jewels Private Limited

August 30, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	-	ACUITE A1 Assigned
Bank Loan Ratings	249.00	ACUITE A+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	251.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of **ACUITE A+ (read as ACUITE A plus)** and short term rating of **ACUITE A1 (read as Acuite A one)** to Rs. 251.00 crore bank loan facilities of H K Jewels Private Ltd. The outlook is 'Stable'.

Reason for rating assigned

The rating factors the established market position of the group, reputed clientele and extensive experience of the promoters of more than three decades in the gems and jewelry industry. The rating also factors the sustained growth in scale of operations over the years despite the onset of covid-19 pandemic, healthy financial risk profile and adequate liquidity position. However, the rating is constrained by susceptibility of the profitability to volatility in the prices of rough diamonds, geographical concentration risk and intense competition marked by fragmented nature of cut and polished diamond (CPD) industry.

About Company

H K Jewels Private Limited (HKJ) is engaged in manufacturing and marketing diamond studded Gold Jewellery with 51% shareholding of Hari Krishna Exports Pvt Ltd (HKEPL). HKJ was incorporated in 2009 to focus on domestic diamond studded and plain jewellery market and has its manufacturing unit in Surat. The company caters to two segments- Wholesale and Retail. Under the wholesale segment, the company manufactures jewellery for brands like Malabar Gold and Diamond, Titan, Kalyan Jewellers and Joyalukkas. For the retail segment it has its own brand- 'KISNA'. The jewellery in the retail segment is sold through a network of distributors and retailers across India.

About the Group

Hari Krishna Exports was set up as a small manufacturing unit in Surat in 1992 with its sales office in Mumbai. The erstwhile firm was converted into a private limited company in February 2012 in the name of Hari Krishna Exports Pvt Ltd (HKEPL). HKEPL is primarily engaged in

production of cut and polish diamonds and sells majorly to wholesalers and Jewelry manufacturing companies. With its manufacturing unit in Surat, the company is promoted by Mr. Savji Dholakia, Mr. Ghanshyam Dholakia, Mr. Tulsi Dholakia and Mr. Himmatbhai Dholakiya. The company is a sight holder of DTC & also select diamantaire of Rio Tinto. Further, it also procures rough diamonds from Alrosa and Dominion Diamond Corporation. The company sells cut and polished diamond in around 53 countries. As a part of forward integration, the company has entered into diamond studded Jewelry manufacturing business through its subsidiaries H K Jewels Pvt Ltd (HKJ) and H K Designs India LLP (HKD). Both the companies are engaged in studded jewelry manufacturing. HKJ manufactures jewelry for the domestic market and HKD manufactures for exports.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has considered the consolidated approach of the business and financial risk profiles of Hari Krishna Exports Pvt Ltd (HKEPL), H K Jewels (HKJ) and H K Designs (HKD) to arrive at the rating. The consolidation is in the view of a similar line of business, common management, and significant business and financial interlinkages between these entities. The group is herein referred to as H K Group (HKG). Extent of Consolidation is Full

Key Rating Drivers

Strengths

Experienced management and established market position in the gems and jewelry industry

The promoters of HKG started their business since 1992. The group is engaged in manufacturing and trading of cut & polished diamonds (CPD) with carat range majorly from 1 to 3 carats in any of the cut, clarity and color ranges. Further, the group is also engaged in manufacturing of diamond studded and plain gold jewelry. The group is promoted by Mr. Savji Dholakia, Mr. Ghanshyam Dholakia, Mr. Tulsi Dholakia and Mr. Himmatbhai Dholakiya. The group's promoters have been in the diamond industry for more than three decades and have established position in the industry. HKG has a global presence and is among one of the leading diamond players in India. They have a diversified customer base in around 53 countries, based in USA, Europe, and Hong Kong among other countries. Hari Krishna Exports Pvt Ltd (HKEPL) is a sight holder with leading miners such as De Beers, Rio Tinto which ensures steady supply of rough diamonds. Apart from the sights, the company also procures roughs from the secondary market. The extensive experience of the promoters has helped the company to establish long and healthy relationships with reputed customers and suppliers over the years. Further, key customers of H K Jewels Pvt Ltd include names such as Malabar Gold and Diamond, Titan, Kalyan Jewelers and Joyalukkas.

Acuité believes that the promoter's experience and reputed clientele is expected to support in improvement of its business risk profile over the medium term.

Healthy operating performance

HK Group has recorded a strong operating performance in FY2022. Revenue of the group saw a 50 % Y-o-Y growth with its revenue at Rs.11,523.11 in FY2022 as against Rs. 7,795.24 Cr in FY2021. Such growth is driven by recovery in consumer demand post covid-19. ~76% of the groups revenue comes from export sales and ~24% of revenue comes from domestic sales. While export sales is the major contributor to the turnover, domestic diamond jewelry segment has seen a healthy growth with the revenues doubling from 428.01 Cr in FY2021 to Rs.929.65 Cr in FY2022. Further, the group also plans to expand the presence of the domestic jewelry brand 'KISNA' through its own retail franchise stores in FY2023. Realisation per carat for the CPD business saw a steady improvement from Rs. 1.25 lakh per carat in FY2020 to Rs. 1.33 lakh per

carat in FY2021 and Rs. 1.35 per carat in FY2022. Sale of the group during the peak season from August to December grew by 41% in FY2022. The group recorded sales of approx. Rs. 5,378 Cr during August to December, 2021 as against Rs. 3,805 Cr during August to December, 2020. Further, operating profit of the group improved from 7.50 percent in FY2022 as against 6.60 percent in FY2021. The improvement in EBITDA margins come at the back of foreign exchange gain. The group recorded a foreign exchange gain of Rs.96.36 Cr in FY2022 and Rs.107.37 Cr in FY2021. EBITDA margins excluding the foreign exchange gain stood at 6.70 percent in FY2022, as against 5.20 percent in FY2021. PAT margins improved from 4.71 percent in FY2022 as against 3.93 percent in FY2021.

Acuite believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

Healthy financial risk profile

HK group's financial risk profile is healthy marked by network low gearing levels and healthy debt protection indicators. The network of the company is healthy at Rs.2,306.81 crore as on March 31, 2022. The network has improved sequentially from Rs.1,786.68 crore as March 31, 2021 on the back of healthy accretion to reserves. The later is a result of healthy revenue growth and moderate operating margins. Acuite believes that the network levels are expected to remain healthy over the medium term marked by healthy revenue growth. The company has followed conservative financial policy in the past as reflected by peak gearing levels of 0.99 times as on March 31, 2020. The current gearing however has remained low at around 0.83 times as on March 31, 2022. Majority of the working capital requirements are funded through bill discounting limits. The bill discounting limits were utilized at an average of 93 per cent over the last twelve month period through May 2022. The operations of the company are working capital intensive due to high inventory holding period and lenient credit term offered to its customers. Acuite believes that the gearing levels are expected to remain in the range of 0.62-0.47 times over the near to medium term. HK Group's debt protection indicators remained healthy with interest coverage at around 11.22 times as on March 31, 2022 and net cash accruals (NCA) to Total Debt stood at 0.31 times as on 31st March 2022. Acuite believes that the debt coverage indicators are likely to remain moderate in the absence of any large deviations in incremental working capital requirements.

Weaknesses

Working Capital intensive nature of operations

Working capital operations of the group are intensive marked by GCA days of 167 days in FY2022 as against 198 days in FY2021. Higher GCA days are driven by higher inventory holding period. While the GCA days for HK Group are high, the industry average for GCA days is ~226 days for companies in the similar line of business. Hence, the company is able to manage its working capital operations better than its peers. The group procures rough diamonds from diamond mining companies. HKEPL on an average maintains inventory for 130 days. 30 days are required to make the polished diamond and another 100 days for grading, certification, and receipt of sales order. The diamond studded jewellery business takes around 40-50 days for manufacturing of jewellery. Most of the inventory held by the diamond studded jewelry business is backed by orders. The inventory holding period stood at 124 days in FY2022 as against 130 days in FY2021. Debtor collection period stood at 37 days in FY2022 as against 47 days in FY2021. The group procures majority of the rough diamonds and gold on advance or cash on delivery basis. Diamonds sourced from the secondary market are with a credit period of maximum 120 days based on the need of the group. Creditor days stood at 58 days in FY2022 as against 45 days in FY2021. Acuite believes that the working capital operations of the company will remain moderate in the medium term and will continue to remain a key rating sensitivity.

Susceptibility of operating performance to cyclicity in gems and jewellery sector and geographical concentration risk

HKG faces concentration risk as two major intermediate/marketing affiliates which contributes to 20 - 25 percent of total sales and purchases of company for key markets like Hong Kong and USA. Also, two key markets USA and Hong Kong contribute to ~60 percent of revenues in

last two year ending FY2022. HKG's export sales contribute to ~74 percent to overseas clients directly or through its marketing affiliates. Demand for CPD and jewelry is directly linked to discretionary spending by the clients and spending pattern changes as a result of economic slowdown. Any impact on the relationships with these players and any change in demand or disruption in this key markets will have direct impact on operating performance of HKG. Acuité believes that established players like HKG will be able to maintain a resilient credit profile on the back of their healthy financial risk profile and demonstrated ability to manage

ESG Factors Relevant for Rating

HK Group has taken up various initiatives for environmental and social causes. The company has built 75 lakes in Amreli and Bhavnagar districts in the Saurashtra region of Gujarat which face scarcity of water. Further, during Covid-19 the company had taken up initiatives like food grain distribution and donation of 50 oxygen cylinders to Lathi Civil Hospital as part of the group's effort to aid patients in their fight against COVID. In addition to the above the company has taken up various blood donation and tree plantation initiatives.

Rating Sensitivities

Sustained improvement in operating performance and efficient management of its working capital requirement

Significant Improvement in capital structure and debt protection indicators

Slowdown in industry leading to inventory pile up and elongation of receivables

Material Covenants

None

Liquidity: Adequate

Liquidity of the group is adequate with sufficient net cash accruals to repay its debt repayment obligations. Net cash accruals stood at 587.63 Cr in FY2022 as against debt repayment obligation of Rs. 59.88 Cr during the same period. Net cash accruals are expected to be in the range of Rs. 814.00-1065.54 Cr in the medium term as against debt repayment obligation of Rs.17.47-8.24 Cr. Average fund based bank limit utilisation for 12 months ending May 2022 stood high at 93%. The group maintains an unencumbered cash balance of Rs. 48.86 Cr as on 31st March, 2022 as against Rs.54.17 Cr as on 31st March 2021.

Acuité expects the liquidity profile to remain strong and healthy over near to medium term.

Outlook: Stable

Acuité believes that HK Group will maintain a 'Stable' credit profile over near to medium term on back of its established position in Cut & Polished Diamonds (CPD) industry and healthy financial risk profile. The outlook may be revised to 'Positive' if the company reports significantly higher than expected operating performance while efficiently managing its working capital cycle and sustaining its healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in operating performance, debt funded capex as well as elongation in the working capital cycle leading to deterioration in the overall financial risk profile and capital structure of HK Group.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	11523.11	7795.24
PAT	Rs. Cr.	542.60	306.26
PAT Margin	(%)	4.71	3.93
Total Debt/Tangible Net Worth	Times	0.83	0.98
PBDIT/Interest	Times	11.22	7.46

Key Financials: H K Jewels Pvt Ltd

	Unit	FY22 (Actual)	FY21 (Actual)
Operating Income	Rs. Cr.	1010.03	454.68
PAT	Rs. Cr.	57.67	25.16
PAT Margin	(%)	5.71	5.53
Total Debt/Tangible Networkth	Times	2.26	1.49
PBDIT/Interest	Times	7.94	9.48

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

Not applicable

Any Other Information

None

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ Stable Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A+ Stable Assigned

Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 Assigned
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	19.00	ACUITE A+ Stable Assigned

* Proposed short term facilities of Rs. 2 crore are forward cover limits availed from IndusInd bank

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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