

Press Release

H K Designs India LLP

January 16, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	146.00	ACUITE A+ Stable Assigned	-
Bank Loan Ratings	68.00	ACUITE A+ Stable Reaffirmed	-
Bank Loan Ratings	4.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	218.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A+**' (read as **Acuite A plus**) and short-term rating of '**ACUITE A1**' (read as **ACUITE one**) to Rs. 72.00 Cr bank loan facilities of H K Designs India LLP (HKD). The outlook is '**Stable**'

Further, Acuite has assigned long-term rating of '**ACUITE A+**' (read as **Acuite A plus**) on Rs. 146.00 Cr bank facilities of H K Designs India LLP. The outlook is '**Stable**'.

Rationale for the rating

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 healthy financial risk profile and sustained growth in scale of operations marked by improvement in operating income at a compounded annual growth rate (CAGR) of 12.83% over the last three years through FY22. The operating income has however seen a moderation reflected by operating income of Rs 5,977 Cr in H1FY23 as against Rs. 6,232 Cr in H1FY22 on account of tepid market conditions which has impacted demand for cut and polished diamonds (CPD) in the key markets like USA and Hongkong for the group. Further, 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

Incorporated in 2006, H K Designs LLP is engaged in diamond studded gold jewelry manufacturing for the overseas market. The firm has its manufacturing facilities in SEEPZ in Mumbai. HKD exports to various countries like USA, Canada, Hongkong and UAE. Majority of the exports are to USA and Hong Kong.

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 RioTinto. 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

Acuite has considered the consolidated approach of the business and financial risk profiles of Hari Krishna Exports Pvt Ltd (HKEPL), H K Jewels Pvt Ltd (HKJ) and H K Designs India LLP (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).

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 include names such as Malabar Gold and Diamond, Titan, Kalyan Jewelers and Joyalukkas.

Acuite 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, albeit moderation in H1FY23

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.

H K Group has recorded a stable operating performance with consolidated revenue of Rs. 5,977.86 crore in H1FY23. The stable performance of the company is driven by the robust demand from the domestic jewellery segment of the group at H K Jewels Pvt Ltd. HKJ has recorded revenue of Rs. 728.58 crore in H1FY23 as against Rs. 151.29 crore in H1FY22 driven by the positive market sentiments in the domestic market. Revenue of HKEPL stood at Rs. 4,907.45 crore in H1FY23 as against Rs. 5,756.44 crore in H1FY22. Such degrowth in performance is on account of subdued demand in USA and Hongkong. H K Designs India LLP has also seen a stable operating performance with sales of Rs.341.83 crore in H1FY23 as against Rs.324.71 crore in H1FY22.

Acuité believes that the business risk profile of the group is likely to remain stable over the medium on the back of reputed clientele and established track record of operations of the group, albeit demand slowdown in the near term.

Healthy financial risk profile

HK group's financial risk profile is healthy marked by healthy network, low gearing levels and healthy debt protection indicators. The network of the group stood at Rs.2,306.81 Cr as on March 31, 2022. The network has improved sequentially from Rs.1,786.68 Cr as March 31, 2021 on the back of healthy accretion to reserves.. 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 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 September 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 0.70-0.56 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. HKEPL on an average maintains inventory for 130 days. Most of the inventory held by the diamond studded jewelry business is backed by orders. The inventory holding period improved 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's reliance on working capital borrowings is high, marked by average utilization of working capital limits of ~93 percent during the ten months period ended November' 2022.

Acuite believes that the working capital operations of the group will remain intensive 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 group 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 their business risk profile during uncertain market conditions.

ESG Factors Relevant for Rating

HKG has taken up various initiatives for environmental and social causes. The group 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 group 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 group has taken up various blood donation and tree plantation initiatives.

Rating Sensitivities

- Elongation in working capital cycle lead by inventory pile up or elongation in debtor collection period leading to increased reliance on working capital limits and stretch in liquidity position
- Maintenance of Total Outside Liabilities to Tangible Networth Ratio within < 1.75 times over the medium term.
- Sustenance in the scale of operations while maintaining the profitability margins and capital structure

Material Covenants

None

Liquidity Position

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. 596-805 Cr in the medium term as against debt repayment obligation of Rs.17.47-8.24 Cr. The group's operations are working capital intensive marked by GCA days of 167 days in FY2022 as against 198 days in FY2021. Average fund based bank limit utilisation for 12 months ending November 2022 stood high at 93%. The group maintains an unencumbered cash balance of Rs. 48.86 Cr as on 31st March, 2022.

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 group 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 further elongation in the working capital cycle leading to deterioration in liquidity of HK Group or lower than expected operating performance.

Other Factors affecting Rating

None

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 Designs India LLP

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Operating Income	Rs. Cr.	366.29	172.37
PAT	Rs. Cr.	13.88	4.53
PAT Margin	(%)	3.79	2.63
Total Debt/Tangible Networth	Times	0.76	0.63
PBDIT/Interest	Times	6.69	2.96

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Sep 2022	Proposed Bank Facility	Short Term	4.00	ACUITE A1 (Assigned)
	Post Shipment Credit	Long Term	31.00	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	24.00	ACUITE A+ Stable (Assigned)
	Post Shipment Credit	Long Term	5.63	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	7.37	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	10.19	ACUITE A+ Stable Assigned
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.14	ACUITE A+ Stable Assigned
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	7.37	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	46.00	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.63	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	59.00	ACUITE A+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	27.00	ACUITE A+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.67	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A1 Reaffirmed

* No Interchangeability from PCFC to Post-shipment credit for facilities availed from State Bank of India
Interchangeability from PCFC to Post-shipment credit is allowed to the extent of 50% for Union Bank Of India
The proposed facility of Rs. 4 crore are forward contract limits availed from State Bank of India

Contacts

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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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