



Press Release
H K DESIGNS INDIA LLP
July 24, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	214.00	ACUITE A+ Negative Reaffirmed	-
Bank Loan Ratings	4.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	218.00	-	-

Note: This press release is on account of change in the instruments rated of Hari Krishna Exports Pvt Ltd (part of consolidated entities). The review of rating was communicated through press release dated July 07, 2023. The PR of the detailed review assessment is available on the following link : https://connect.acuite.in/fcompany-details/H%20K%20DESIGNS%20INDIA%20LLP/7th_Jul_23.

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 A one**) to Rs. 218.00 Cr bank loan facilities of H K Designs India LLP (HKD). The outlook is '**Negative**'.

Rationale for reaffirmation

The rating considers the moderate operating performance of the Group in FY2023 partly driven by the slump in the demand for the CPD segment in the overseas market. According to various industry reports, the Cut and Polished Diamond (CPD) market segment has contracted in FY23, marked by the decline in the gross diamond exports of the country by ~10% in FY23 over the previous year. The recovery is expected to be timid over the near term. The revenues of the Group declined and stood lower than estimated at Rs.10494.61 crore in FY2023 as against the revenues of Rs.11531.93 crore in FY2022. The operating margin remained range bound as it stood at 7.33 percent in FY2023 as against 7.37 percent in FY2022. The rating reaffirmation factors in the healthy financial risk profile of the Group. Acuite believes that the company's ability to grow its scale of operations and profitability while maintaining a healthy capital structure remains a key rating indicator.

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 jewellery 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 company is likely to sustain its existing business profile over the medium term on the back of an established track record of operations and experienced management.

Healthy financial risk profile

The financial risk profile of the Group is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth of the Group stood at Rs. 2721.24 crore in as on March 31, 2023, as against Rs. 2287.34 crore as on March 31, 2022. The gearing of the Group stood at 0.63 times as on March 31, 2023, as against 0.90 times as on March 31, 2022. The decrease in the debt levels is attributed to the comparatively lower utilisation of the working capital limits by the Group. The total debt of the Group stood at Rs.1706.13 crore as on March 31, 2023. It consists of the long-term debt of Rs.28.93 crore, unsecured loans of Rs.3.90 crore and short-term debt of Rs. 1669.47 crore. The Group has added CC limits of ~Rs.60 crore in FY2023. Additional limits of ~Rs.90 crore is expected to be added in FY2024.

Further, the Group has taken a vehicle loan of Rs.21 crore in FY24 for the purchase of 48 buses which will be used for the transportation of their employees. The interest coverage metrics stood healthy with interest coverage ratio of 6.22 times in FY2023 as against 11.22 times in FY2022. The DSCR stood at 3.17 times in FY2023 as against 2.86 times in FY2022. Acuité believes that the ability of the Group to maintain a healthy financial risk profile in the medium term will remain a key rating sensitivity in medium term.

Moderate operating performance, albeit decline in the Cut and Polished Diamond segment

H K Group has recorded a decline in the revenue by 8 percent to Rs.10494.61 in FY2023 as against the revenue of Rs.11531.93 crore in FY2022. The decline is due to the slump in the demand for the cut and polished diamonds in the international markets such as USA and China due to factors such as recession, ~77 percent of the revenues of HKEPL come from the exports market out of which ~30 percent of the same comes from the US markets. The tepid market conditions in the overseas market may further impact the revenues of the H K Group. Even though Hari Krishna Exports recorded a decline in the revenues due to the cut and polish diamonds segment, H K Designs and H K Jewels witnessed an improvement in the revenues due to boost in the demand for the gold studded jewellery segment and expansion of the presence in the domestic jewellery market through their own brand 'Kisna'. The operating margins of the Group stood at 7.33 percent in FY2023 as against 7.37 percent in FY2022. The Group is focusing on maintaining the profitability margins at 7-8 percent. The PAT margin of the Group stood at 4.15 percent in FY2023 as against 4.67 percent in FY2022. The PAT margins have declined, majorly due to the high finance costs resulted by the increase in the interest rates for the working capital loans. Acuité believes that the ability of the Group to maintain and improve its business risk profile in medium term will remain a key rating sensitivity.

Weaknesses

Working Capital intensive nature of operations

The Group has working capital intensive operations marked by the high GCA days of 184 days as on March 31, 2023, as against 166 days as on March 31, 2022. The high GCA days are majorly driven by high inventory days. The inventory days stood at 151 days as on March 31, 2023, as against 129 days as on March 31, 2022. The average inventory holding period is around 5 months. The debtors' days stood at 30 days as on March 31, 2023, as against 37 days as on March 31, 2022. Average credit period allowed to the customers is around 30 days. The creditors days stood at 66 days as on March 31, 2023, as against 58 days as on March 31, 2022. The average credit period received from the suppliers is around 60-70 days. The Group needs to make advance payments to the suppliers of the rough diamonds in the CPD segment. The average bank limit utilisation for the H K Group is high at around 82 percent for last six months ended May'2023. Acuité 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 cyclical in gems and jewellery sector

Demand for CPD and jewellery 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 established market position.

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

The liquidity position of the Group is adequate with healthy net cash accruals against the maturing debt obligations. The Group generated the net cash accruals of Rs.488.80 crore in FY2023 as against the maturing debt obligations of Rs.21.34 crore over the same period. The net cash accruals are expected to remain in the range of Rs.503.78-531.99 crore for the period FY2024 to FY2025 and the maturing debt obligations are expected to be in the range of Rs.11.08-12.09 crore for the same period. The Group has unencumbered cash and bank balance of Rs.107.48 crore as on March 31,2023. The current ratio stood at 1.61 times as on March 31, 2023.

Outlook:Negative

Acuité believes that HKG will maintain a 'Negative' outlook due to deterioration in the operating performance of the Group partly driven by overall slowdown in the industry. The rating may be downgraded in case of further decline in the operating performance of the Group along with deterioration in the capital structure or elongation of working capital cycle. The outlook may be revised to 'Stable' in case of improvement in the operating performance will maintaining a healthy financial risk profile and restricting the elongation in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	10494.61	11531.93
PAT	Rs. Cr.	435.48	538.17
PAT Margin	(%)	4.15	4.67
Total Debt/Tangible Net Worth	Times	0.63	0.84
PBDIT/Interest	Times	6.22	11.22

Key Financials (Standalone)

Particulars	Unit	FY23(Actual)	FY22(Actual)
Operating Income	Rs. Cr.	685.51	366.29
PAT	Rs. Cr.	29.8	13.88
PAT Margin	(%)	4.35	3.79
Total debt/Tangible Networkth	Times	0.55	0.76
PBDIT/Interest	Times	9.88	6.69

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, Acuite 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
07 Jul 2023	Post Shipment Credit	Long Term	5.63	ACUITE A+ Negative (Reaffirmed)
	Post Shipment Credit	Long Term	90.00	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Long Term	7.37	ACUITE A+ Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	3.00	ACUITE A+ Negative (Reaffirmed)
	Proposed Bank Facility	Short Term	4.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Long Term	27.00	ACUITE A+ Negative (Reaffirmed)
	Covid Emergency Line.	Long Term	1.92	ACUITE A+ Negative (Reaffirmed)
	Packing Credit	Long Term	70.00	ACUITE A+ Negative (Reaffirmed)
	Covid Emergency Line.	Long Term	9.08	ACUITE A+ Negative (Reaffirmed)
16 Jan 2023	Covid Emergency Line.	Long Term	10.19	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Long Term	1.67	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Long Term	59.00	ACUITE A+ Stable (Assigned)
	Covid Emergency Line.	Long Term	2.14	ACUITE A+ Stable (Assigned)
	Packing Credit	Long Term	7.37	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Long Term	5.63	ACUITE A+ Stable (Reaffirmed)
	Post Shipment Credit	Long Term	31.00	ACUITE A+ Stable (Reaffirmed)
	Packing Credit	Long Term	46.00	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Long Term	27.00	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Short Term	4.00	ACUITE A1+ (Reaffirmed)
	Packing Credit	Long Term	24.00	ACUITE A+ Stable (Reaffirmed)
01 Sep 2022	Packing Credit	Long Term	7.37	ACUITE A+ Stable (Assigned)
	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)

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	9.08	ACUITE A+ Negative Reaffirmed
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.92	ACUITE A+ Negative Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	ACUITE A+ Negative Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	7.37	ACUITE A+ Negative Reaffirmed
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.63	ACUITE A+ Negative Reaffirmed
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	90.00	ACUITE A+ Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A+ Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	27.00	ACUITE A+ Negative Reaffirmed
Not Applicable	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

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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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