

## Press Release

Hari Krishna Exports Private Limited

January 16, 2023

## Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1577.90	ACUITE A+   Stable   Reaffirmed	-
Bank Loan Ratings	48.99	-	ACUITE A1   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	1626.89	-	-
Total Withdrawn Quantum (Rs.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 A one**) on Rs.1626.89 crore bank facilities of Hari Krishna Exports Pvt Ltd. (HKEPL). 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

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.

### About the Group

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## **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 crores 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 networth, low gearing levels and healthy debt protection indicators. The networth of the group stood at Rs.2,306.81 Cr as on March 31, 2022. The networth 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: Standalone**

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Operating income	Rs. Cr.	10,596.06	7,362.53
PAT	Rs. Cr.	478.04	278.86
PAT Margin	(%)	4.51	3.79
Total Debt/Tangible Networkth	Times	0.72	0.93
PBDIT/Interest	Times	12.27	7.66

**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](http://www.acuite.in).



## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Oct 2022	Post Shipment Credit	Long Term	15.00	ACUITE A+   Stable (Assigned)
	Post Shipment Credit	Long Term	211.20	ACUITE A+   Stable (Assigned)
	Post Shipment Credit	Long Term	30.00	ACUITE A+   Stable (Assigned)
	Proposed Bank Facility	Short Term	1.00	ACUITE A1 (Assigned)
	Post Shipment Credit	Long Term	65.00	ACUITE A+   Stable (Assigned)
	Proposed Bank Facility	Short Term	5.00	ACUITE A1 (Assigned)
	Proposed Bank Facility	Short Term	3.50	ACUITE A1 (Assigned)
	Proposed Bank Facility	Short Term	1.20	ACUITE A1 (Assigned)
	Post Shipment Credit	Long Term	125.00	ACUITE A+   Stable (Assigned)
	Packing Credit	Long Term	147.00	ACUITE A+   Stable (Assigned)
	Proposed Bank Facility	Short Term	3.27	ACUITE A1 (Assigned)
	Proposed Bank Facility	Short Term	3.80	ACUITE A1 (Assigned)
	Packing Credit	Long Term	492.80	ACUITE A+   Stable (Assigned)
	Proposed Bank Facility	Short Term	0.96	ACUITE A1 (Assigned)
	Standby Line of Credit	Long Term	10.00	ACUITE A+   Stable (Assigned)
	Proposed Standby Line of Credit	Long Term	51.00	ACUITE A+   Stable (Assigned)
	Standby Line of Credit	Long Term	10.90	ACUITE A+   Stable (Assigned)
	Packing Credit	Long Term	38.15	ACUITE A+   Stable (Assigned)
	Standby Line of Credit	Long Term	5.00	ACUITE A+   Stable (Assigned)
	Packing Credit	Long Term	75.00	ACUITE A+   Stable (Assigned)
	Standby Line of Credit	Long Term	18.00	ACUITE A+   Stable (Assigned)
	Standby Line of Credit	Long Term	33.00	ACUITE A+   Stable (Assigned)
	Proposed Bank Facility	Short Term	30.26	ACUITE A1 (Assigned)
	Post Shipment Credit	Long Term	63.00	ACUITE A+   Stable (Assigned)
	Post Shipment Credit	Long Term	171.50	ACUITE A+   Stable (Assigned)
	Post Shipment Credit	Long Term	16.35	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	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	492.80	ACUITE A+   Stable   Reaffirmed
Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	147.00	ACUITE A+   Stable   Reaffirmed
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	38.15	ACUITE A+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.35	ACUITE A+   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	171.50	ACUITE A+   Stable   Reaffirmed
IDBI Bank Ltd.	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE A+   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A+   Stable   Reaffirmed
Canara Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A+   Stable   Reaffirmed
Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	63.00	ACUITE A+   Stable   Reaffirmed
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	211.20	ACUITE A+   Stable   Reaffirmed
State Bank of India	Not Applicable	Proposed Short Term Bank	Not Applicable	Not Applicable	Not Applicable	Simple	30.26	ACUITE A1   Reaffirmed

		Facility						
Bank of India	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.80	ACUITE A1   Reaffirmed
Canara Bank	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A1   Reaffirmed
Union Bank of India	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.96	ACUITE A1   Reaffirmed
Bank of Baroda	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.27	ACUITE A1   Reaffirmed
Indusind Bank Ltd	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A1   Reaffirmed
IDBI Bank Ltd.	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A1   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.20	ACUITE A1   Reaffirmed
Not Applicable	Not Applicable	Proposed Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	51.00	ACUITE A+   Stable   Reaffirmed
The Saraswat Cooperative Bank Ltd	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A+   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	33.00	ACUITE A+   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.90	ACUITE A+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A+   Stable   Reaffirmed
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Canara Bank	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	A+   Stable   Reaffirmed
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\*Proposed short term limits are CE limits: Credit enhancement limits to forward contracts

\*In the matter of IndusInd Bank Limited, Union Bank of India, The Saraswat Co-operative Bank Limited, IDBI Bank Limited, EPC/PCFC facility is under Post shipment credit limit.

The following sublimits are available under Post shipment credit limits:

Saraswat Co-operative bank	Rs. 17 crore of PC/PCFC facility available as sublimit under Post Shipment credit.
IDBI Bank	Rs. 32.50 crore of PC/PCFC facility available as sublimit under Post Shipment credit.
IndusInd Bank	Rs. 120.05 crore of PC/PCFC facility available as sublimit under Post Shipment credit.
Union Bank of India	Rs. 87.50 crore of PC/PCFC facility available as sublimit under Post Shipment credit.

\*Interchangeability between EPC to PSC limit and PSC to EPC limit and sublimit and payment undertaking other facilities as mentioned in the sanction letters of the respective said banks within their respective total exposure allocated to each bank is allowed as per the terms as stipulated in the sanction letter of the respective banks.

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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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