

January 31, 2013

Facilities / Instrument	Amount (Rs. Crore)	Rating
Packing Credit	339.20	SMERA BBB/Stable (Assigned)
Post Shipment Credit	510.80	SMERA BBB/Stable (Assigned)
Proposed Packing Credit / Post Shipment Credit	100.00	SMERA BBB/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BBB**' – read as "**SMERA Triple B**" to KARP Impex Limited's (KARP) Rs.950 crore bank facilities. The outlook is '**stable**'. The rating draws comfort from the company's three decade long presence in the gems and jewellery (G&J) industry, focus towards technology and KARP's satisfactory financial profile.

The ratings are constrained by the company's lengthy working capital cycle, recent regulatory changes constraining profiles of G&J players and KARP's susceptibility to high foreign competition and economic uncertainty in its key markets. The company is also susceptible to foreign exchange losses. (KARP suffered a forex loss in 2011-12 – Financial year beginning April 01, to the tune of Rs. 80 crore).

KARP's management has been in the G&J industry for over three decades; the promoters are professionally qualified and are ably supported by a professional second line of management. Despite being a family held business, the responsibilities are clearly segregated; three generations of the promoter family have been in the G&J business. The company also has a strong focus towards technology improvement and has been an early adopter of modern technology. KARP's rating also benefits from robust net worth and steady revenue growth and absence of long term debt.

The company however has a lengthy working capital cycle as KARP specialises in larger and fancy diamonds which tend to have lesser turnaround in inventory. Moreover recent regulatory changes regarding import duty and mandatory conversion of foreign exchange holdings would require greater hedging by import dependent players, thereby resulting in pressure on margins and operating cash flows. Additionally, weak economic environment in key operating markets such as USA and competition from the Chinese cutting and polishing players constrains KARP's credit profile.

Outlook – Stable

SMERA believes that despite lower profitability in the coming years KARP will be able to successfully maintain its credit profile given its long standing presence in the market aided by superior technology and robust net worth. The outlook may be revised to negative if the company suffers higher than anticipated forex losses and slowdown in its key markets. The outlook could be

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revised to positive if the company maintains its steady growth in cash profitability and accretion to net worth without resorting to higher debt over the medium term.

About the Company

Karp Impex Limited (KARP) is engaged in processing of cut and polished diamonds and trading of polished diamonds. The Company was started as a partnership firm in 1983 with Mr. Anil Virani and Mr. Kishor Virani as the principal partners. On April 24, 1995, the company was converted into a Limited Company viz. M/s Karp Diamonds Ltd and subsequently renamed as Karp Impex Ltd. DTC sightholder since 1993 and one of the few manufacturers for “Forever” mark diamond for DTC since 2003. Presence in international luxury market as an exclusive supplier of patented cut and polished diamonds to “Mont Blanc” for their writing instruments and women accessories. KARP derives about 80% of its revenues from manufacturing and processing of cut and polished diamonds, while balance sales arise out of trading of cut and polished diamonds and rough diamonds. The company's sales are predominantly export oriented (~80% of total sales).

For the year ended March 31, 2012, KARP reported a PAT of Rs. 12.62 crore on a total income of Rs. 1,862.65 crore, as compared to a PAT and total income of Rs. 57.10 crore and Rs. 1,210.22 crore respectively for the year ended March 31, 2011.

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