



SMERA RATINGS LIMITED

Karp Impex Limited (KIL)**Rating
Rationale****April 14, 2014**

Facilities	Amount (Rs. Crore)	Rating
Export Packing Credit	398.20	SMERA BBB-/Stable (downgraded from SMERA BBB/Stable)
Post Shipment Credit	551.80	SMERA BBB-/Stable (downgraded from SMERA BBB/Stable)
Proposed Export Packing Credit / Post Shipment Credit	100.00	SMERA BBB-/Stable (Assigned)
Total	1050.00	

SMERA has downgraded the rating on the Rs.950.00 crore bank facilities (enhanced from Rs.850.00 crore) to '**SMERA BBB-**' (read as **SMERA triple B minus**) from 'SMERA BBB' (read as SMERA triple B) of Karp Impex Limited (KIL). Further, SMERA has assigned a rating of '**SMERA BBB-**' to the Rs.100.00 crore proposed bank loan facilities of KIL. The rating outlook is '**Stable**'.

The downgrade reflects KIL's moderate financial risk profile marked by leverage (debt-to-equity ratio) of 1.87 times (estimated) as on March 31, 2014 and interest coverage ratio of 1.77 times (estimated) in FY2013-14 (refers to financial year, April 01 to March 31). KIL has strong tangible net worth of Rs.498.92 crore as on March 31, 2014 (Rs.454.84 crore in the previous year). However, the company's return indicators are weak. KIL's return on capital employed (RoCE) is expected to be ~6.00 per cent in FY2013-14. However, the company does not have any long-term borrowings. KIL's entire debt (of Rs.950.00 crore as on March 31, 2014) comprises working capital loans. The company's operations are highly working capital-intensive. KIL's gross current assets (GCA) are expected to be high at ~262 days in FY2013-14 on account of stretched receivables period of 145 days and high inventory levels of 110-120 days. Consequently, the company's average bank limit utilisation is high at ~95 per cent during January 2013 to February 2014. KIL's ability to improve debt coverage indicators and reduce bank limit utilization is a key rating sensitivity.

KIL's rating remains constrained by the company's moderate financial risk profile, marked by high leverage (1.87 times as on March 31, 2014), low interest coverage ratio (1.77 times in FY2013-14) and working capital-intensive operations. The rating also reflects the company's exposure to raw material price volatility and high level of geographical concentration. However, the rating continues to draw comfort from the company's established position as one of India's leading exporters of cut and polished diamonds. The rating also continues to benefit from the company's long track record of operations spanning three decades in the diamond processing business. Further the rating is supported by the company's experienced management, strong distribution network, DTC sightholder membership and healthy net worth.

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Update

During April 2013 to December 2013, KIL reported profit after tax (PAT) of Rs.18.09 crore on net sales of Rs.1,402.83 crore, as compared with PAT of Rs.14.83 crore on net sales of Rs.1,186.90 crore for the corresponding period of the previous year. For FY2013-14, KIL is expected to report PAT of Rs.22.08 crore on net sales of Rs.2,008.00 crore, as compared with PAT of Rs.16.23 crore on net sales of Rs.1,818.88 crore for FY2012-13. KIL is expected to report ~10 per cent revenue growth in FY2013-14. The company's net profit margin is expected to be ~1.00 per cent in FY2013-14. KIL has reported forex loss of Rs.24.21 crore in FY2012-13; the company is expected to report forex gain of ~Rs.20.00 crore in FY2013-14.

Rating sensitivity factors

- Growth in scale of operations amidst muted demand environment in key markets
- Improving profitability in a highly competitive industry
- Improvement in working capital management and liquidity position
- Fluctuations in foreign exchange rates

Outlook: Stable

SMERA believes KIL will continue to benefit over the medium term from its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in profit margins while maintaining healthy revenue growth, or in case of improvement in the company's working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the company's profitability, or in case the company reports high forex losses. The outlook may also be affected by major deterioration in the company's capital structure on account of higher-than-expected debt-funded working capital requirements.

About the company

KIL was established as a partnership firm in 1983 and converted to a closely-held public limited company in 1995. KIL is engaged in processing of cut and polished diamonds. The company is also engaged in trading of polished diamonds. KIL is a DTC sightholder since 1993. The company is one of the few manufacturers for 'Forever' mark diamonds. KIL is an exclusive supplier of patented cut and polished diamonds set in writing instruments and women's accessories manufactured by Mont Blanc. KIL derives ~90 per cent of its revenues from manufacturing and processing of cut and polished diamonds, while the remaining revenues arise from trading of cut and polished diamonds and rough diamonds. Exports account for ~88 per cent of the company's total sales.

For FY2012-13, KIL reported PAT of Rs.16.23 crore on operating income of Rs.1,818.88 crore, as compared with PAT of Rs.12.62 crore on operating income of Rs.1,862.65 crore for FY2011-12.

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Further, the company is expected to report PAT of Rs.22.08 crore on operating income of Rs.2,008.00 crore for FY2013-14. KIL's tangible net worth stood at Rs.498.92 crore as on March 31, 2014, as compared with Rs.454.84 crore a year earlier.

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