



SMERA RATINGS LIMITED

KARP Impex Limited (KIL)**Rating
Rationale****July 25, 2015**

Facilities	Amount (Rs. Crore)	Rating
Export Packing Credit	423.25	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Post Shipment Credit	610.75	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Export Packing Credit/ Post Shipment Credit (proposed)	16.00	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)

SMERA has upgraded the long-term rating on Rs.1050.00 crore bank facilities of KARP Impex Limited (KIL) to **'SMERA BBB' (read as SMERA triple B)** from 'SMERA BBB-' (read as SMERA triple B minus). The outlook is **'Stable'**.

The upgrade reflects the improvement in KIL's business risk profile, primarily driven by consistent growth in the company's revenues; the growth is expected to continue going forward. The upgrade also factors the expected improvement in the company's operating profit margin. Recently, KIL has signed a three year contract with Alrosa. As per the contract, KIL will directly source rough diamonds from Alrosa, this arrangement is expected to benefit KIL; direct procurement of raw material from the mining company will reduce the costs. The upgrade also factors in the consistent improvement in KIL's tangible net worth, primarily driven by infusion of equity and accretion to reserves.

The rating continues to derive support from the company's established position and long track record of operations spanning three decades in the diamond processing business. The rating is also supported by the company's experienced management, strong distribution network, DTC sightholder membership and healthy net worth. However, the rating remains constrained by the company's working capital-intensive operations and high level of geographical concentration in its revenue profile. The rating also reflects the company's exposure to raw material price fluctuation risk.

Update

For FY2014-15, KIL reported profit after tax (PAT) of Rs.15.60 crore on operating income of Rs.2152.62 crore, as compared with PAT of Rs.17.09 crore on operating income of Rs.1971.07 crore in the previous year. KIL's financial risk profile is marked by net worth of Rs.507.20 crore as on March 31, 2015, as compared with Rs.493.75 crore a year earlier. The leverage stood at 1.86 times as on March 31, 2015 and interest coverage ratio of 1.83 times in FY2014-15.

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**Rating
Rationale**

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 ~86 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 ~77 per cent of the company's total sales.

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