

Press Release

Karp Impex Limited

27 December, 2017



Rating Upgraded

Total Bank Facilities Rated	1,050 Cr.
Long Term Rating	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)

SMERA has upgraded the long term rating on the Rs.1050 crore bank facilities of Karp Impex Limited (KIL) to '**SMERA BBB+**' (read as **SMERA triple B plus**) from '**SMERA BBB**' (read as **SMERA triple B**). The outlook is '**Stable**'.

The upgrade is in view of the growth in revenues, improvement in margins and working capital cycle of KIL. SMERA believes that KIL will be able to sustain revenue growth and profitability margins over the medium term.

KIL was established as a partnership firm in 1983 and converted to a closely-held public limited company in 1995. The company is engaged in the processing and trading of cut and polished diamonds. The company is a Diamond trading company (DTC) site holder since 1993 and one of the few manufacturers of 'Forever' brand of diamonds. It is an exclusive supplier of cut and polished diamonds (patented) set in writing instruments and women's accessories manufactured by Mont Blanc. KIL derives ~86 per cent of its revenue from manufacturing and processing of cut and polished diamonds, with the rest from trading. Around 35 per cent revenue is generated from diamonds of weight 10 carats and above.

Key rating drivers

Strengths

Established track record of operations, experienced management

KIL is promoted by Mr. Anil B. Virani and Mr. Kishore B. Virani with extensive experience in the diamond industry.

SMERA believes that KIL will sustain its business risk profile on the back of established track record of operations and experienced management.

Network of offices in key diamond centres

KIL's group companies, Karp Impex NV (KINV) and Karp Impex HK Ltd (KIHK) based in Belgium and Hong Kong respectively are engaged in the marketing of finished products of KIL. Karp Diamonds Pvt Ltd (KDPL) based out of Rajkot is engaged in diamond trading. The company has also set up an office in Dubai to conveniently source diamonds from Botswana.

Healthy financial profile

KIL has a healthy financial risk profile marked by net worth of Rs. 546.40 crore as on 31 March, 2017 as against Rs. 524.48 crore as on 31 March, 2016. The gearing stood moderate at 1.62 times as on 31 March, 2017 as against 1.70 times as on 31 March, 2016. The total outstanding debt of Rs. 883.93 crore as on 31 March, 2017 comprises Rs.10.00 crore of unsecured loans from promoters and Rs. 873.93 crore as working capital borrowings from the bank.

The Interest Coverage Ratio (ICR) stood at 1.92 times in FY2017 as against 1.82 times in FY2016. KIL's Return on Capital Employed (RoCE) stood at 5.79 per cent in FY2017 as against 4.91 times in FY2016. The cost of borrowing is also low at 5.48 per cent in FY2017 because of dollar denominated borrowings.

The net cash accruals stood at Rs. 32.96 crore in FY2017 as against Rs. 28.56 crore in FY2016. The NCA/TD stood at 0.04 times in FY2017 compared to 0.03 times in FY2016. Further, the total outside liabilities to tangible net worth (TOL/TNW) stood at 2.03 times as on 31 March, 2017 as against 2.02 times as on 31 March, 2016.

SMERA believes that KIL will maintain a healthy financial risk profile on the back of healthy net cash accruals and absence of debt funded capex plan.

Comfortable profitability margins

The profitability margins are comfortable (period under study-FY2015 to FY2017). The EBITDA margins stood at 3.45 percent in FY2017 as against 3.59 percent in FY2016 and 3.60 percent in FY2015. However, the PAT margin stood lean at 0.86 percent in FY2017 as against 0.77 percent in FY2016 and 0.73 percent in FY2014.

SMERA believes that the company will register improvement in profitability margins over the near to medium term.

Weaknesses

Foreign exchange fluctuation risk

KIL imports rough diamonds and exports finished diamonds which translates into a natural hedge to a certain extent in terms of forex risk. However, a substantial time gap between imports and realisation of foreign currency (mainly USD) denominated payment exposes the company to high foreign exchange fluctuation risk.

Working capital intensive operations

The company's operations are working capital intensive, marked by Gross Current Assets days of 215 in FY2017 as against 239 in FY2016. The improvement over FY2016 is mainly on account of decrease in inventory holding period to 125 days in FY2017 as against 140 days in FY2016. The receivable period has also decreased to 88 days in FY2017 as against 98 days in FY2016. The company's average bank limit utilisation has remained comfortable at ~87 per cent for the period April 2017 to October 2017.

Geographic concentration of sales

Exports to Hong Kong, UAE and Belgium constituted ~68 percent of total sales in FY2017, indicating high geographic concentration.

High competitive intensity

The gems and jewellery industry is characterised by the presence of a large number of organised and unorganised players resulting in pressure on margins.

Analytical approach: SMERA has considered the standalone business and financial risk profile of KIL to arrive at the rating.

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Outlook: Stable

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

About the rated entity - key financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	2630.10	2231.50	2146.06
EBITDA	Rs. Cr.	90.70	80.17	77.20
PAT	Rs. Cr.	22.60	17.28	15.60
EBITDA Margin	(%)	3.45	3.59	3.60
PAT Margin	(%)	0.86	0.77	0.73
ROCE	(%)	5.79	4.91	4.60
Total Debt/Tangible Net Worth	Times	1.62	1.70	1.86
PBDIT/Interest	Times	1.92	1.82	1.83
Total Debt/PBDIT	Times	5.79	4.91	4.60
Gross Current Assets (Days)	Days	215	239	245

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29-Aug, 2016	Export Packing credit	Long Term	399.90	SMERA BBB / Stable (Reaffirmed)
	Export Packing credit	Long Term	23.35	SMERA BBB / Stable (Withdrawn)
	Post shipment credit	Long Term	23.35	SMERA BBB / Stable (Withdrawn)
	Post shipment credit	Long Term	587.40	SMERA BBB / Stable (Reaffirmed)
	Export Packing credit/Post Shipment credit (Proposed)	Long Term	62.70	SMERA BBB / Stable (Reaffirmed)
25-Jul, 2015	Export Packing credit	Long Term	423.25	SMERA BBB / Stable (Upgraded from SMERA BBB-/Stable)
	Post shipment credit	Long Term	610.75	SMERA BBB / Stable (Upgraded from SMERA BBB-/Stable)
	Export Packing credit/Post Shipment credit (Proposed)	Long Term	16.00	SMERA BBB / Stable (Upgraded from SMERA BBB-/Stable)
14-Apr, 2014	Export Packing credit	Long Term	398.20	SMERA BBB-/Stable (Downgraded from SMERA BBB/Stable)
	Post shipment credit	Long Term	551.80	SMERA BBB-/Stable (Downgraded from SMERA BBB/Stable)
	Export Packing credit/Post Shipment credit (Proposed)	Long Term	100.00	SMERA BBB-/Stable (Assigned)
31-Jan-2013	Packing credit	Long Term	339.20	SMERA BBB / Stable (Assigned)

	Post shipment credit	Long Term	510.80	SMERA BBB / Stable (Assigned)
	Proposed packing credit/ Post shipment credit	Long Term	100.00	SMERA BBB / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Export Packing credit	Not Applicable	Not Applicable	Not Applicable	399.90	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Post shipment credit	Not Applicable	Not Applicable	Not Applicable	587.40	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Proposed packing credit/ Post shipment credit	Not Applicable	Not Applicable	Not Applicable	62.70	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)

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ABOUT SMERA

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