Press Release

Karp Impex Limited

March 14, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 1050.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Negative (Downgraded from ACUITEBBB+/Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BBB**' **(read as ACUITE triple B)** from **ACUITE BBB+/Stable (read as ACUITE triple B plus)** on the Rs. 1050.00 crore bank facilities of Karp Impex Limited (KIL). The outlook is **'Negative'**.

The downgrade is on account of elongation of working capital cycle and irregularities in servicing working capital bank facilities in thepast.

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 thefew 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 polisheddiamonds, with the rest from trading. The rating downgrade reflects continuous decline revenues vis-à- vis Acuité expectation for FY2019. Further, the working capital for 10MFY2019 has elongated thereby, higher dependence on working capital requirements. Also, there have been instances of intermittent irregularities in working capital facilities with the banks. The profitability of KIL has marginally improved, marked by operating margin of ~6.20 per cent for 10MFY2019 as against 3.60 times in the previous year. The improvement in operating margins is on account of change in business strategies undertaken in the currentfinancialyear.Further,profitaftertaxmarginstoodflattishat0.80percentforFY2018asagainst 0.86 for the previous year.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Karp Impex Limited (KIL) to arrive at therating.

Key Rating Drivers

Strengths

- **Experiencedmanagement**

  KIL started operations in 1983 to process and sell polished diamonds. The promoters, Mr. Anil B. Virani and Mr. Kishore B. Virani have more than 3 decades of experience in the diamond industry. This has helped the company in maintaining good business relations with clients. KIL and its other group companies have opened offices in key diamond centers of the world such as Belgium, Hong Kong and Dubai. Acuité believes the experience of the promoters will help the company in maintaining theirbusinessriskprofileonthebackofestablishedtrackofoperationsintheneartomediumfuture.

- **Moderate financial riskprofile**

  KIL has a moderate financial risk profile marked by net worth of Rs. 567.63 crore as on 31 March, 2018 as against Rs. 546.40 crore as on 31 March, 2017. The gearing stood moderate at 1.63 times as on 31 March, 2018 as against 1.62 times as on 31 March, 2017. The total outstanding debt of Rs. 926.45 crore as on 31 March, 2018 comprises Rs.36.00 crore of unsecured loans from promoters and Rs. 890.45 crore as working capital borrowings from the bank. The Interest Coverage Ratio (ICR) stood at 1.80 times in FY2018asagainst1.92timesinFY2017.KIL'sReturnonCapitalEmployed(RoCE)stoodatanaverage 5.48percentforthreeyearsendingMarch2018.Thecostofborrowingisalsolowat5.74percentin

FY2018 because of dollar denominated borrowings. The net cash accruals stood at Rs. 29.84 crore in FY2018 as against Rs. 32.96 crore in FY2017. The NCA/TD stood at 0.03 times in FY2018 compared to 0.04 times in FY2017. Further, the total outside liabilities to tangible net worth (TOL/TNW) stood at 1.93 times as on 31 March, 2018 as against 2.03 times as on 31 March, 2017. Acuité believes that KIL will maintain a moderate financial risk profile on the back of moderately healthy net cash accruals and absence of debt funded capexplan.

Weaknesses

- **Intermittent irregularities amidst intensive working capitaloperations**

  Recent credit events in KIL entailing irregularities in facilities of the bank resulted in reduction of export working capital limits by the bankers. The company generates 90 percent of its sales from its top 10 clients. Majority of these clients have been irregular with payment in the past. Inability of KIL to add moreclients has increased the customer concentration risk. The company continues to have transactions with the same set of clients. Increase in amount of bills sent for collection reflects the impaired financial ability of the company. Discussion with bankers indicates regular status of accounts since January 2019. Change in business strategies with reduced exposure to high risk category of diamonds is likely to elevate large bills getting overdue. However, the company will be exposed to intense competition related to manufacturing and trading of diamonds in moderate to low risk category. The company's operations are working capital intensive, marked by Gross Current Assets (GCA) of 219 days in FY2018 as against 215 days in FY2017. The deterioration over FY2017 is mainly on account of increase in debtor days to 120 days in FY2018 as against 88 days in FY2017. The inventory holding period has decreased to 95 days in FY2018 as against 125 days in FY2017. The company's average bank limit utilisationhas remained at ~95 per cent for the period August 2018 to January 2019. Acuité believes the company will continue to face further liquidity pressure due to elongated working capital cycle in the near to mediumfuture.

Outlook: Negative

Acuité believes that the outlook on KIL is 'Negative' as the credit profile is expected to be impacted by intermittent irregularities in servicing the working capital facilities with the bank and elongated working capital cycle over near to medium term. The rating may be downgraded in case of re-occurrence of such irregularities and continued moderation in liquidity profile and its profitability margins, higher than expecteddebtfundedcapexleadingtofurtherdeteriorationindebtprotectionindicators.Conversely,the outlook may be revised to 'Stable' if the company is able to show significant growth in revenue while efficiently managing its working capital cycle and keeping the debt levelsmoderate.

Liquidity Position

KIL has weak liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.28.00 to 33.00 crore during the last three years through 2017-18. The cash accruals of the company are estimated to remain around Rs.19.00 – 24.00 crore during 2019-2. KIL's operationsaremoderatelyworkingcapitalintensiveasmarkedbygrosscurrentasset(GCA)daysof219in FY2018. This has led to increased reliance on working capital borrowings, the cash credit limit of the company remains utilized at 95 percent during the last 12 months period ended December 2018. KIL maintainsunencumberedcashandbankbalancesofRs.21.58croreasonMarch31,2018.Thecurrentratio of the company stands healthy at 1.48 times as on March 31, 2018. The company is likely to incur capex of Rs.5.00 – 10.00 crore over the medium which is likely to be funded by internal accuals. Acuite believes that the liquidity of KIL is likely to under pressure over the medium term on account of expected reduction in cash accruals, change in business strategies and increased dependence on working capitalborrowings.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	2594.94	2630.10	2231.50
EBITDA	Rs. Cr.	93.33	90.70	80.17
PAT	Rs. Cr.	20.85	22.60	17.28
EBITDA Margin	(%)	3.60	3.45	3.59
PAT Margin	(%)	0.80	0.86	0.77
ROCE	(%)	5.74	5.79	4.91
Total Debt/Tangible Net Worth	Times	1.63	1.62	1.70
PBDIT/Interest	Times	1.80	1.92	1.82
Total Debt/PBDIT	Times	9.92	9.47	10.86
Gross Current Assets (Days)	Days	219	215	239

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/criteria-default.htm
- Manufacturing Entities -https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Jul-2018*	Packing Credit	Long Term	399.90	ACUITE BBB+ / Stable (Upgraded)
	Post Shipment Credit	Long Term	587.40	ACUITE BBB+ / Stable (Upgraded)
	Proposed Packing Credit	Long Term	62.70	ACUITE BBB+ / Stable (Upgraded)
27-Dec-2017	Packing Credit	Long Term	399.90	ACUITE BBB+ / Stable (Upgraded)
	Post Shipment Credit	Long Term	587.40	ACUITE BBB+ / Stable (Upgraded)
	Proposed Packing Credit	Long Term	62.70	ACUITE BBB+ / Stable (Upgraded)
29-Aug-2016	Packing Credit	Long Term	399.90	ACUITE BBB / Stable (Reaffirmed)
	Packing Credit	Long Term	23.35	ACUITE BBB / Stable (Withdrawn)
	Post Shipment Credit	Long Term	23.35	ACUITE BBB / Stable (Withdrawn)
	Post Shipment Credit	Long Term	587.40	ACUITE BBB / Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	62.70	ACUITE BBB / Stable (Reaffirmed)

** Erratum was uploaded on 16/07/2018*

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	379.38	ACUITE BBB/ Negative (Downgraded)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	521.12	ACUITE BBB/ Negative (Downgraded)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	149.50	ACUITE BBB/ Negative (Downgraded)

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