

## Press Release

Karp Impex Limited

November 30, 2021



## Rating Reaffirmed

| Product           | Initial Quantum (Rs. Cr.) | Net Quantum (Rs. Cr) | Long Term Rating  | Short Term Rating |
|-------------------|---------------------------|----------------------|---|-------------------|
| Bank Loan Ratings | 1050.00                   | 1050.00              | ACUITE BBB-   Stable   Reaffirmed<br>  Negative to Stable |                   |
| Total             | 1050.00                   | 1050.00              | -   | -                 |

\*Refer Annexure for details

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) on the Rs.1050.00 Cr bank facilities of Karp Impex Limited (KIL). The outlook is revised to '**Stable**' from '**Negative**'.

## Rationale for revision in outlook

The revision in outlook takes into consideration improved operational performance of KIL in 7MFY2022 (Provisional) while maintaining a healthy financial risk profile. The revision in outlook also draws comfort from the positive trend noted in the gems and jewellery industry in FY2022. As per GJEPC report, net exports of cut and polished diamonds from India have registered a growth of 60.55 percent in Q1FY2022 to \$1360.85 million from \$847.62 million during Q1FY2020. The operations of KIL were impacted in FY2021 due to the Covid-19 pandemic induced lockdown. The Company's operating income declined to Rs.1474.76 Cr in FY2021 from Rs.1699.17 Cr in FY2020. However, the Company registered robust recovery in FY2022 as it generated revenue of Rs.726.80 Cr in 4MFY2022 (Provisional) which rose to Rs.1449.97 Cr in 7MFY2022 (Provisional) i.e. 98.22 percent of its turnover of FY2021. The operating margins of the Company which declined to 3.10 percent in FY2021 from 3.70 percent in FY2020, stood at 3.88 percent during the 4MFY2022 (Provisional) period. The overall gearing of the Company stood at 0.88 times as on March 31, 2021 as against 0.92 times as on March 31, 2020 and TOL/TNW stood at 1.10 times as on March 31, 2021 as against 1.30 times as on March 31, 2020. The interest coverage improved to 1.89 times in FY2021 from 1.68 times in FY2020.

## About the Company

Mumbai based Karp Impex Limited (KIL) was established as a partnership firm in 1983 by Mr. Anil B Virani and Mr. Kishore B. Virani. The firm was 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 sight holder 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 ~75-85 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.

## Analytical Approach

Acuite has taken the standalone approach while assessing the business and financial risk profile of KIL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### > Experienced management and established track record of operations

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 exports around 55-75 percent of its total sales primarily in the markets of Hong Kong, Belgium and Dubai. It imports around 75 percent of its total requirement of rough diamonds.

Acuité believes the experience of the promoters will help the company in maintaining their business risk profile on the back of established track of operations in the near to medium future.

#### > Healthy financial risk profile

KIL's financial risk profile is healthy, marked by healthy net worth, comfortable gearing, however constrained by moderate debt protection metrics. The tangible net worth stood healthy at Rs.710.62 Cr as on March 31, 2021 as against Rs.696.78 Cr as on March 31, 2020. The growth in net worth is fuelled by accretion to reserves. The Gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) stood at 0.88 times and 1.10 times respectively as on March 31, 2021 as against 0.92 times and 1.30 times respectively as on March 31, 2020. The total debt stood at Rs.625.76 Cr as on March 31, 2021, which comprised of Rs.529.64 Cr of short-term debt, Rs.74.92 Cr of unsecured loans from promoters and directors and Rs.21.19 Cr of long term borrowings. KIL has modest profitability margin in the range of 3-5 percent over the last three year ended FY2021. The modest profitably levels vis-à-vis the high debt level has resulted in moderate debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood 1.89 times and 1.71 times respectively in FY2021 as against 1.68 times and 1.48 times in FY2020. The company reported net cash accruals of Rs.18.85 Cr in FY2021 as against 17.15 Cr in FY2020. The net cash accruals to total debt (NCA/TD) stood at 0.03 times in FY2021.

Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy network profile and no major debt-funded capex plan over the medium term.

### Weaknesses

#### > Poor operating performance, albeit robust recovery in FY2022

KIL's topline declined to Rs.1474.76 Cr in FY2021 from Rs. 1699.17 Cr in FY2020. KIL's operations were impacted during the first wave of Covid-19 induced lockdown as its operations are halted from two months of April and May, 2021. The operating margins also declined to 3.10 percent in FY2021 from 3.70 percent in FY2020. However, in FY2022 the Company has recorded robust recovery. KIL generated a total income of Rs. 726.80 Cr in 4MFY2022 (Provisional) at an operating margin of 3.88 percent. The revenue earned improved to Rs. 1449.97 by 7MFY2022 (Provisional) i.e. 98.22 percent of FY2021 turnover. The improvement in revenues in FY2022 is in line with industry trend. As per GJEPC report, net exports of cut and polished diamonds from India have registered a growth of 60.55 percent in Q1FY2022 to \$1360.85 million from \$847.62 million during Q1FY2020. The growth in the demand is driven by improved demand for manufacturing studded jewellery products and Positive jewellery retail sales in the US and China, Re-stocking and increase in the inventory levels of industry players, Recovery of demand in India's key export destinations like USA, China, and Europe and Continued domestic manufacturing activities.

Acuite expects KIL to maintain its operating performance of FY2022 over the medium term given the strong positive trends in gems and jewellery industry.

#### > Working capital intensive nature of operations

KIL's working capital cycle remained stretched in FY2021 as its gross current asset days stood at 351 days as on March 31, 2021 as against 323 days as on March 31, 2020. The GCA days are driven by high inventory and debtor days. The inventory days stood at 156 days as on March 31, 2021 as against 122 days as on March 31, 2020. The debtor days stood at 187 days as on March 31, 2021 as against 202 days as on March 31, 2020. The average bank limit utilization of its fund based facility for the twelve months ended September, 2021 was ~86 percent. The creditor days stood at 38 days as on March 31, 2021 as against 57 days as on March 31, 2020.

Acuité believes KIL's ability to restrict further elongation in working capital cycle will be a key rating sensitivity.

### > **Susceptibility of profitability margins to volatility in prices of diamonds and fluctuations in forex risk**

Due to high inventory holding period, the Company runs an inherent risk of volatility in raw material prices. The Company imports ~75 percent of its raw material requirement i.e. rough diamonds and its exports range between 55-75 percent of its total sales. The forex risk on exports is largely covered against imports, however, the price volatility risk in rough diamonds threaten the thin profitability margins of the company due to long working capital cycles.

### **Liquidity Position: Stretched**

The liquidity of the Company is stretched, marked by high GCA days of 351 days in FY2021 as against 323 days in FY2020. The GCA days are majorly driven by high inventory days and debtor days. KIL generated net cash accruals of Rs.18.85 Cr and Rs.17.15 Cr in FY2021 and FY2020 respectively while it had no significant repayment obligations during the same period. The cash accruals of the Company are expected to remain in the range of Rs.25.00-30.00 Cr over the medium term against debt repayment obligations of Rs.3-18 Cr for the same period. The average bank limit utilization of its fund based facility for the twelve months ended September, 2021 stood at ~86 percent. The unencumbered cash and bank balance stood at Rs.4.65 Cr as on March 31, 2021. The current ratio was 2.00 times as on March 31, 2021. Acuité believes that the liquidity of the Company is likely to remain stretched over the medium term on account of elongated working capital cycle and low unutilised bank limits.

### **Rating Sensitivities**

- > Any further elongation in its working capital cycle.
- > Ability to maintain the recovery in its operating performance while maintaining its profitability and capital structure.

### **Material covenants**

None

### **Outlook: Stable**

Acuité believes that KIL will maintain a 'Stable' outlook over medium term on account of robust recovery in its operating performance in FY2022 supported by positive trends noted in gems and jewellery industry. The extensive experience of its management, established track record of operations and healthy financial risk profile of KIL also support the outlook. The outlook may be revised to 'Positive' in case the Company achieves higher than expected improvement in its operating performance while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its operating performance or any further elongation in its working capital cycle impacting its liquidity profile.

### **Key Financials**

| Particulars      | Unit    | FY 21 (Actual) | FY 20 (Actual) |
|------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 1474.76        | 1699.17        |
| PAT              | Rs. Cr. | 13.50          | 11.18          |

|                               |       |      |      |
|-------------------------------|-------|------|------|
| PAT Margin                    | (%)   | 0.92 | 0.66 |
| Total Debt/Tangible Net Worth | Times | 0.88 | 0.92 |
| PBDIT/Interest                | Times | 1.89 | 1.68 |

**Status of non-cooperation with previous CRA (if applicable)**

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

| Date        | Name of Instruments/Facilities | Term      | Amount (Rs. Cr) | Rating/Outlook   |
|-------------|--------------------------------|-----------|-----------------|--|
| 31 Aug 2020 | Packing Credit                 | Long Term | 379.38          | ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Negative) |
|             | Post Shipment Credit           | Long Term | 521.12          | ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Negative) |
|             | Proposed Packing Credit        | Long Term | 149.50          | ACUITE BBB-   Negative (Downgraded from ACUITE BBB   Negative) |
| 14 Mar 2019 | Post Shipment Credit           | Long Term | 521.12          | ACUITE BBB   Negative (Downgraded from ACUITE BBB+   Stable)   |
|             | Proposed Packing Credit        | Long Term | 149.50          | ACUITE BBB   Negative (Downgraded from ACUITE BBB+   Stable)   |
|             | Packing Credit                 | Long Term | 379.38          | ACUITE BBB   Negative (Downgraded from ACUITE BBB+   Stable)   |
| 16 Jul 2018 | Packing Credit                 | Long Term | 399.90          | ACUITE BBB+   Stable (Upgraded from ACUITE BBB+   Stable)      |
|             | Post Shipment Credit           | Long Term | 587.40          | ACUITE BBB+   Stable (Upgraded from ACUITE BBB+   Stable)      |
|             | Proposed Packing Credit        | Long Term | 62.70           | ACUITE BBB+   Stable (Upgraded from ACUITE BBB+   Stable)      |
| 27 Dec 2017 | Packing Credit                 | Long Term | 399.90          | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)       |
|             | Post Shipment Credit           | Long Term | 587.40          | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)       |
|             | Proposed Packing Credit        | Long Term | 62.70           | ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)       |
| 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)                               |
| 25 Jul 2015 | Packing Credit                 | Long Term | 423.25          | ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)       |
|             | Post Shipment Credit           | Long Term | 610.75          | ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)       |
|             | Proposed Packing Credit        | Long Term | 16.00           | ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)       |
| 14 Apr 2014 | Packing Credit                 | Long Term | 398.20          | ACUITE BBB-   Stable (Downgraded from ACUITE BBB   Stable)     |
|             | Post Shipment Credit           | Long Term | 551.80          | ACUITE BBB-   Stable (Downgraded from ACUITE BBB   Stable)     |
|             | Proposed Packing Credit        | Long Term | 100.00          | ACUITE BBB-   Stable (Assigned)                                |
| 31 Jan 2013 | Packing Credit                 | Long Term | 339.20          | ACUITE BBB   Stable (Assigned)                                 |
|             | Post Shipment Credit           | Long Term | 510.80          | ACUITE BBB   Stable (Assigned)                                 |
|             | Proposed Packing Credit        | Long Term | 100.00          | ACUITE BBB   Stable (Assigned)                                 |

## Annexure - Details of instruments rated

| Lender's Name        | ISIN           | Facilities | Date Of Issuance | Coupon Rate    | Maturity Date  | Initial Quantum (Rs. Cr.) | Net Quantum (Rs. Cr.) | Rating   |
|----------------------|----------------|------------|------------------|----------------|----------------|---------------------------|-----------------------|--|
| Axis Bank            | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 35.00                     | 35.00                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| Bank of India        | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 34.00                     | 34.00                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| Exim Bank            | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 10.53                     | 10.53                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| ICICI Bank Ltd       | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 15.00                     | 15.00                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| Punjab National Bank | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 17.40                     | 17.40                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| RBL Bank             | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 10.00                     | 10.00                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
| State Bank of India  | Not Applicable | PC/PCFC    | Not Applicable   | Not Applicable | Not Applicable | 62.94                     | 62.94                 | ACUITE<br>BBB-  <br>Stable  <br>Reaffirmed<br> <br>Negative<br>to Stable |
|                      |                |            |                  |                |                |                           |                       | ACUITE<br>BBB-   |



|                      |                |                      |                |                |                |       |       |  |
|----------------------|----------------|----------------------|----------------|----------------|----------------|-------|-------|--|
| Union Bank of India  | Not Applicable | PC/PCFC              | Not Applicable | Not Applicable | Not Applicable | 64.00 | 64.00 | Stable   Reaffirmed   Negative to Stable               |
| Yes Bank Ltd         | Not Applicable | PC/PCFC              | Not Applicable | Not Applicable | Not Applicable | 5.20  | 5.20  | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| Axis Bank            | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 52.00 | 52.00 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| Bank of India        | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 51.00 | 51.00 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| Exim Bank            | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 15.79 | 15.79 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| IDBI Ltd             | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | 25.00 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| Punjab National Bank | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 23.60 | 23.60 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| State Bank of India  | Not Applicable | Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 94.36 | 94.36 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
|                      |                |                      |                |                |                |       |       | ACUITE BBB-  |

|                     |                |                         |                |                |                |        |        |  |
|---------------------|----------------|-------------------------|----------------|----------------|----------------|--------|--------|--|
| Union Bank of India | Not Applicable | Post Shipment Credit    | Not Applicable | Not Applicable | Not Applicable | 93.00  | 93.00  | Stable   Reaffirmed   Negative to Stable               |
| Yes Bank Ltd        | Not Applicable | Post Shipment Credit    | Not Applicable | Not Applicable | Not Applicable | 7.80   | 7.80   | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |
| Not Applicable      | Not Applicable | Proposed Packing Credit | Not Applicable | Not Applicable | Not Applicable | 433.38 | 433.38 | ACUITE BBB-   Stable   Reaffirmed   Negative to Stable |



## Contacts

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|--|--|
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### About Acuité Ratings & Research

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