

Press Release

Karp Impex Limited

September 30, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1050.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	1050.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Reason for Rating Rationale

The rating upgrade is on account of the improvement in operating and financial performance of KIL. The operating income of the Company improved to Rs. 2160.03 Cr. in FY22(Prov.) as against Rs. 1474.76 Cr. in FY21, the growth in operating income is driven by both higher realisations and volumes. The operating profitability margin stood at 4.16 percent in FY2022 as against 3.10 percent in FY2021. The overall gearing stood at 0.66 times as on March 31, 2022 (Prov.) as against 0.88 times as on March 31, 2021. Going forward, sustaining the growth in scale of operations while maintaining the profitability margins and capital structure will be a key rating monitorable and elongation in working capital cycle will be a key rating monitorable.

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 and trading of cut and polished diamonds of size ranging between 4 cents to 3 carat. KIL is a DTC sight certificate holder since 1993, and has manufacturing facilities located in Mumbai and Surat. 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, established track record of operations and improvemet in operating performance**

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 and imports around 75 percent of its total requirement of rough diamonds. On the back of stable and repeated orders, the operating income of the company increased to Rs. 2160.03 Cr. in FY22 as against Rs. 1474.76 Cr. Cr in FY21. The operating margins stood at 4.23 percent in FY2022 as against 3.10 percnet in FY2021. The improvements in FY2022 is on account of both higher realisations and volumes. Further, the growth is also in line with the overall growth noted in the industry. As per GJEPC report, the net exports of diamond increased to USD 17334 million in FY2022 as against USD 11794 million in FY2021 and USD 12535 million in FY2020. The growth is attributable to steady recovery of demand in key export markets of USA, Europe, Israel and Hongkong, easing of Covid-19 restrictions pertaining to manufacturing in the domestic market and robust consumer demand of jewelry among others. KIL's operating income stood at Rs. 432.78 Cr in Q1FY2023.

Acuité believes the experience of the promoters and overall industry trend will help the company in maintaining their business risk profile over the near to medium future.

- **Healthy financial risk profile**

KIL's financial risk profile is healthy, marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood healthy at Rs.760.09 Cr as on March 31, 2022 as against Rs.710.62 Cr as on March 31, 2021. The growth in net worth is on account of accretion of profits to reserves. The overall gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) stood at 0.66 times and 0.88 times respectively as on March 31, 2022 as against 0.75 times and 1.10 times respectively as on March 31, 2021. The total debt stood at Rs.497.97 Cr as on March 31, 2022, which comprised of Rs.494.22 Cr of short-term debt and Rs.3.75 Cr of long term borrowings. The debt protection metrics is moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 4.20 times and 0.11 times respectively in FY2022 as against 1.89 times and 0.03 times in FY2021.

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

Weaknesses

- **Working capital intensive nature of operations**

KIL's operations continue to remain working capital intensive in nature. However, the working capital cycle has improved during the year marked gross current asset (GCA) days of 214 days as on March 31, 2022 as against 351 days as on March 31, 2021. The GCA days are driven by high inventory and debtor days. The inventory days stood at 123 days as on March 31, 2022 as against 156 days as on March 31, 2021. The debtor days stood at 91 days as on March 31, 2022 as against 187 days as on March 31, 2021. However, KIL's reliance on bank lines to fund its working capital requirement continues to remain high, marked by average bank limit utilization of its fund based facility of 90-95 percent during the six months ended July, 2022 . The creditor days stood at 10 days as on March 31, 2022 as against 38 days as on March 31, 2021.

Acuite believes that the working capital management to remain moderately intensive over the medium term

- **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.

Rating Sensitivities

- Sustaining the growth in scale of operations while maintaining the profitability margins and capital structure
- Any deterioration in working capital cycle

Material covenants

None

Liquidity Position Adequate

The liquidity of the company is adequate marked by comfortable net cash accruals as against debt repayment obligations. The company generated NCA of Rs. 53.86 Cr. in FY22 as against Rs. 17.62 Cr. of maturing debt obligations. Going forward, the net cash accruals are expected to remain in the range of Rs. 30-36 Cr. in FY23-24 as against maturing debt obligations of Rs. 3-4 Cr. The company's GCA days stood at 214 days as on March 31, 2022. The current ratio of the company stood at 2.23 times as on March 31, 2022. The average utilisation of its fund based working capital facility ranged between 90-95 percent for the six months period ended July, 2022. The unencumbered cash and bank balance stood at Rs. 12.23 Cr. as on March 31, 2022 (Prov.).

Acuite believes that the liquidity position would be adequate over the medium term on account of moderate cash accruals as against negligible repayment obligations

Outlook: Stable

Acuite believes that KIL will maintain a 'Stable' outlook over medium term on account of extensive experience of its management, moderate operating performance and moderate financial risk profile. The outlook may be revised to 'Positive' in case the Company achieves higher than expected improvement in its scale of operations while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of slower than expected growth in scale of operations or any further elongation in its working capital cycle impacting its liquidity profile

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2160.03	1474.76
PAT	Rs. Cr.	49.24	13.50
PAT Margin	(%)	2.28	0.92
Total Debt/Tangible Net Worth	Times	0.66	0.88
PBDIT/Interest	Times	4.20	1.89

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

BWR vide its Press Release dated September 13, 2022 has declared Karp Impex Limited as 'Issuer Not Co-operating'

Any other information

As per FY2021-22 audited financial statement, KIL has recognised a contingent liability of Rs. 212.66 Cr towards a disputed income tax liability. However, as per the submissions given to Acuite, the matter is pending tax authorities and currently there is limited clarity around the resolution timelines. Acuite will monitor developments in this regards.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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
30 Nov 2021	Post Shipment Credit	Long Term	94.36	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	7.80	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	5.20	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	64.00	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	15.79	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	17.40	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	93.00	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	34.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	433.38	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	51.00	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	10.53	ACUITE BBB- Stable (Reaffirmed)
	Post Shipment Credit	Long Term	23.60	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	62.94	ACUITE BBB- Stable (Reaffirmed)

	Post Shipment Credit	Long Term	52.00	ACUITE BBB- Stable (Reaffirmed)
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		ACUITE BBB+ Stable (Upgraded from ACUITE BBB+ Stable)
			62.70	ACUITE BBB+ Stable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB Stable Upgraded
Exim Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.53	ACUITE BBB Stable Upgraded
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	62.94	ACUITE BBB Stable Upgraded
Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BBB Stable Upgraded
Yes Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.20	ACUITE BBB Stable Upgraded
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	64.00	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	17.40	ACUITE BBB Stable Upgraded
RBL Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Upgraded
Punjab National Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	23.60	ACUITE BBB Stable Upgraded
Union Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	93.00	ACUITE BBB Stable Upgraded
Yes Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	7.80	ACUITE BBB Stable Upgraded
Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	51.00	ACUITE BBB Stable Upgraded
State Bank of India	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	94.36	ACUITE BBB Stable Upgraded

IDBI Bank Ltd.	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB Stable Upgraded
Exim Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	15.79	ACUITE BBB Stable Upgraded
Axis Bank	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	448.38	ACUITE BBB Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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