

Kiran Gems Private Limited

November 28, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2476	CARE A+; Stable (Single A plus; Outlook: Stable)	Revised from CARE A (Single A)
Short-term Bank Facilities	210	CARE A1 (A one)	Reaffirmed
Total Facilities	2686 (Rupees Two thousand Six hundred Eighty Six crore only)		

Detailed Rationale and Key Rating Drivers

The revision in the rating assigned to the bank facilities of Kiran Group (KG) (Kiran Gems Private Limited, Kiran Jewelry and Kiran Jewels (India)) factors in sustained growth in operating income and profitability and improvement in financial risk profile during last two years i.e. FY16 (refers to period from April 01 to March 31) and FY17.

The ratings continue to derive strength from strong business profile in the Indian CPD (Cut & Polished diamonds) industry being one of the largest players in India, consistent growth in operations and profitability and adequate capital structure & debt coverage metrics. The ratings also reflect demonstrated funding support and vast experience of the promoters in the Gems and Jewellery (G&J) industry and partly integrated operations in the G&J value chain through group companies (i.e. Kiran Jewelry, Kiran Jewels (India), etc.) which are in the business of diamond studded Jewellery. The ratings also take cognizance established relationships with customers and world's leading diamond mining companies.

These rating strengths are however tempered by large working capital requirement being nature of the industry, risk of volatility in prices of rough and polished diamonds and susceptibility to volatile foreign exchange both imparting volatility to profitability. The ratings also factor in intense competition from organized and un-organized players and the fragmented nature of G&J industry.

The ability of KG to efficiently manage its working capital cycle and improve profitability margins and debt coverage metrics remains the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Vastly experienced promoters in diamond industry: Kiran Gems Private Limited (KGPL) is the flagship company of the Kiran Group (KG), promoted by Mr. Vallabhbhai Patel (Chairman), Mr. Babubhai Lakhani (Director) & Mr. Mavjibhai Patel (Managing Director). The promoters have vast experience in the G&J industry and have been instrumental in establishing Kiran group as one of the largest players in CPD in India.

Strong business profile being one of the largest players of CPD in India: Over the years, KGPL has established itself as one of the largest players in CPD in India and has largest no. of manufacturing units in India employing around 38000 craftsmen. It processes over 5.7 million carats of rough to yield over 1.6 million carats of polished diamonds annually. KGPL is engaged in processing of CPD from -1 cent to 10 carats, presently 55% are of smaller size and 45% are of bigger size viz. 15 cents and above. Due to its scale and size, it has an ability to shift its sales mix between small carat sizes to

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

large carat sizes as per the demand scenario. KGPL has been consistently receiving top exporter performance awards for the past nine consecutive years from FY08 to FY16 (source: -Gems & Jewellery Export promotion Council).

Partly integrated operations of the group: Kiran Group is integrated across the Gems & Jewellery (G&J) value-chain from sourcing rough diamonds to cutting to CPDs of all shapes (such as rounds, marquise, pears, princess, emeralds, hearts, and ovals) to Diamond studded Jewellery. In its diamond division, KGPL has the requisite expertise to cut and process a range of rough diamonds in various shapes, colors and clarity.

Contracted sourcing of quality rough diamonds from the world's leading diamond mining companies: The group has contracted sourcing of rough diamonds from world's leading diamond companies such as DeBeers, Alrosa, Dominion, etc. Purchase from DTC was (around 14% in FY17 vis-à-vis 10% in FY16) and ALROSA (around 12% in FY17 vis-à-vis 9% in FY16). Its DTC sight-holder status enables the group to service a large customer base efficiently.

Consistent growth in sales along with stable PBILDT margins: Sales of the KG grew at 11% CAGR during the period FY14-17 on account of higher volumes and superior product mix. During FY17, sales grew 17% y-o-y to Rs.9,412 crore (FY16: Rs.8,068 crore) which includes 8% (FY16: 9%) contribution from diamond studded jewelry. Gross margins increased from 16.70% in FY16 to 17.12% in FY17 due to more sales of high margin carat sizes. PBILDT margin remained stable at 7.64% in FY16 to 7.71% in FY17. However, PAT margin improved to 3.63% in FY16 vis-à-vis 4.06% in FY17 due to lower interest outgo primarily due to lower utilization of working capital loans. Consequently, Interest coverage ratio has improved at 4.86 times in FY17 as compared to 3.72 times in FY16.

On standalone basis, Kiran Gems Private Ltd (KGPL) contribution to overall KG sales stood at 92% in FY17 (91% in FY16). Besides, KGPL's contribution to KG's PAT at 71% in FY17 (64% in FY16).

Improved financial risk profile: Overall gearing of the group improved to 0.77 times as on March 31, 2017 (vis-à-vis 1.05 times as on March 31, 2016) with majority of the borrowings being working capital loans. Due to improved profitability, total debt to GCA also improved to 4.13 times as on March 31, 2017 [6.90 times as on March 31, 2016]. KG has a large net worth base which stood at around Rs.2453 crore as on March 31, 2017 (March 31, 2016:Rs.2066 crore).

On standalone basis, KGPL has improved its overall gearing and stood at 0.93 times in FY17 (FY16: 1.15 times) and TD/GCA stood at 5.75 times in FY17 (FY16: 9.96 times). Besides KGPL contributes 83% to KG's net worth in FY17 (FY16:86%).

Key Rating Weaknesses

Large working capital requirement due to elongated operating cycle

Relatively long operating cycle and working capital intensive nature of business is an inherent characteristic of the G&J industry. The operating cycle of KGPL remained stable at 153 days in FY17 [158 days in FY16]. Average collection period reduced from 100 days to 89 days. Total inventory increased from Rs.1863.60 crore in FY16 to Rs.2551.63 crore in FY17 due to shift in product mix towards more of small carats. However increase in inventory was funded by creditors which increased to Rs 1361 crore in FY17 (FY16: Rs 525.27 crore) Working capital utilization has remained largely stable at 68% in the past 12 months ended July 2017 (vis-à-vis 78% in the past 12 months ended May 2016).

Risk of volatility in prices of rough and polished diamonds: Pricing of rough and polished diamonds are primarily based on market conditions such as demand and supply scenario. Low bargaining power with large suppliers as well as intense competitive market scenario limits margin profile and pricing ability of the company.

Susceptible to foreign exchange fluctuation: The Company earns 92% of its revenue from exports and is subject to foreign exchange fluctuations. As KG enjoys natural hedge on most of its foreign exchange exposure, for the balanced portion, the company enters into hedging by way of forward contracts. Despite hedging contracts, commodity price and foreign exchange fluctuation are moderate risks to the profitability of the company.

Analytical approach - Combined

For assessing credit risk profile of Kiran Group (KG), we have considered the combined business and financial risk profiles of Kiran Gems Pvt. Ltd (KGPL), Kiran Jewelry (KJ) and Kiran Jewels (India) (KJI) due to their strong operational & financial linkages and common promoters. Also, KGPL has extended corporate guarantee to KJ (Rs.135 crore).

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

Company Background

Kiran Gems Private Limited (KGPL) is the flagship company of the Kiran Group (KG), promoted by Mr. Vallabhbhai Patel (Chairman), Mr. Babubhai Lakhani (Director) & Mr. Mavjibhai Patel (Managing Director). KGPL commenced business as a partnership firm (erstwhile Kiran Exports) in 1985, and was incorporated in September 2007 as a private limited company. KGPL is engaged in processing of CPD from -1 cent to 10 carats in all shapes, sizes and color, presently 55% are of smaller size and 45% are of bigger size viz. 15 cents and above. Due to its scale and size, it has an ability to shift its sales mix between small carat sizes to large carat sizes as per the demand scenario. KGPL's manufacturing units spread across Surat & Ahmadabad having approx. 20 Lacs Sq. Ft. KG's sales mix was as follows: CPDs: around 92% in FY17 (96% in FY16) & Diamond-studded Jewellery: around 8% in FY17 (9% in FY16).

Kiran Jewelry (SEZ unit in Surat) and Kiran Jewels (India) are group entities of KGPL and are engaged in manufacturing of diamond studded Jewellery. Kiran Group's Jewellery division sources the polished diamonds primarily from KGPL.

In the wake of restructuring undertaken at Kiran Gems group and as per updates through their websites dated November 29, 2016, Kiran Exports BVBA is no longer a Group Company of Kiran Gems Private Limited. Also as per updates dated April 10, 2017 Kiran Jewels Inc., Unique Design, SDIL, Prestige, which are from the USA and Kiran Export Hong Kong- from Hong Kong are longer remain Group Companies of Kiran Gems Private Limited.

Brief Financials - Combined (Rs. crore)	FY16 (UA)	FY17 (UA)
Total operating income	8067.70	9412.47
PBILDT	615.98	726.16
PAT	290.85	382.22
Overall gearing (times)	1.05	0.77
Interest coverage (times)	3.72	4.86

Brief Financials - Standalone (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	7986.33	9341.16
PBILDT	508.15	588.44
PAT	185.45	272.20
Overall gearing (times)	1.15	0.93
Interest coverage (times)	2.58	4.28

Status of non-cooperation with previous CRA: Not Applicable

Any Other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	2476.00	CARE A+; Stable
Non-fund-based - ST-Forward Contract	-	-	-	210.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	2476.00	CARE A+; Stable	-	1)CARE A (02-Sep-16)	1)CARE A (23-Oct-15)	1)CARE A- (21-Oct-14)
2.	Non-fund-based - ST-Forward Contract	ST	210.00	CARE A1	-	1)CARE A1 (02-Sep-16)	1)CARE A2+ (23-Oct-15)	1)CARE A2+ (21-Oct-14)
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (02-Sep-16)	1)CARE A (23-Oct-15)	1)CARE A- (21-Oct-14)

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