Kiran Jewelry

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	112.00 (Reduced from 165.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Short Term Bank Facilities	3.00 (Reduced from 6.04)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**115.00 (Rs. One Hundred Fifteen Crore Only)**		

Details of facilities in Annexure-1
Kiran Group (KG; comprises of Kiran Gems Private Limited (KGPL), Kiran Jewelry (KJ) and Kiran Jewels (India) (KJI).

The revision in ratings and outlook to the bank facilities of Kiran Group (KG) factors in improvement in financial risk profile of the company for FY21 and continued strong performance during YTDFY22(referring to period from April 1 to September 28) supported by faster than expected recovery in export orders from major diamond consuming countries, price over volume strategy adopted by miners resulting in to demand-supply balance and scale of operations reaching more than the pre-pandemic level.
The ratings also factor in long standing experience of the promoters in CPD (Cut and Polished Diamonds) business of over 35 years, strong business profile marked by KGPL being the largest CPD player in India in terms of total CPD exports, presence across value chain, across size (carats), shape and across geographies through its group companies. The rating also factors in the Improvement in capital structure marked by improvement debt coverage indicators; albeit, some moderation in overall gearing as on March 31, 2021.
The aforesaid rating strengths are, however, tempered by working capital intensive operations of the company and susceptibility of the profitability to volatility in the prices of rough diamonds and foreign exchange fluctuations. The rating also factors in the intense competition and fragmented nature of CPD industry.
CARE also takes note of auditor comments regarding customs order dated June 14, 2021 allowing consignment, to be released or exported to supplier after payment of redemption fine and penalty, which were held up by customs in April 2019, due to dispute regarding valuation.

Key Rating Sensitivities:
Positive factors - Factors that could lead to positive rating action/upgrade

1. Improvement in scale of operations, margins and working capital cycle on sustained basis

Negative factors: Factors that could lead to negative rating action/downgrade

2. Working capital cycle more than 120 days on sustained basis.
3. Decline in current ratio below 1.20 times
4. Decline in TOI below Rs.9,000 crore and decline in PBILDT margins below 4.5% on a sustained basis
5. Decline in overall gearing above0.8x on a combined basis

Detailed description of the key rating drivers
Key Rating Strengths
Extensive experience of the promoters in CPD 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). KGPL commenced business as a partnership firm (erstwhile Kiran Exports) in 1985, and was incorporated in September 2007 as a private limited company. The promoters have more than three and half decades of experience in the G&J industry, resulting which the group continues to be the largest exporter of CPD from India, accounting for about 5.4% of total CPD exports from India in FY21. Apart from this the group has presence in Jewellery segment through its group companies (KJ and KJI). KGPL holds 2% in KJ and the rest is owed by KGPL promoters and related parties and the entire shareholding of KJI is held by KGPL promoters and related parties.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Strong business profile with International marketing setup
KG group has integrated operations throughout the Gems & Jewellery (G&J) value-chain from sourcing, cutting and polishing of rough diamonds to jewellery manufacturing and marketing, it has been able to establish strong relationship with a diversified client base across geographies. As such the group draws significant operational efficiencies from its integrated operations and diverse client base. KGPL marketing affiliates are located in key diamond centres and major markets like Hong Kong, USA, Belgium and UAE. Hong Kong is the biggest market for KGPL comprising 29% of TOI in FY21, demand from Hong Kong remained robust during Q1FY22 as well, it contributed 23.69% of total revenue. Domestic sales contributed ~31% of standalone TOI of KGPL in FY21 which is steadily increasing over last four fiscals, the share of the same increased further in Q1FY22 to 39.49%.

Established relationship with customers
KGPL has a diversified customer base with exposure to jewellery manufacturers and retailers all over the world. During FY21, the sales from top 10 customer accounted for about 53%(PY:57%), which has increased to 55% during Q1FY22.

Sourcing of rough diamonds from world's leading diamond mining companies
KGPL is a DTC sight-holder & Alrosa sight-holder at holding company level i.e. KGPL. KGPL procures most of its rough diamond requirements from its affiliate supplier and this company procures rough diamonds from miners and secondary market, and supplies to KGPL. Apart from procuring rough diamonds, KGPL also procures polished diamonds for meeting specific requirements of customers. Other key raw material includes gold metal, silver metal and dyes and moulds for jewellery manufacturing which is procured through bullion exchanges and traders. During FY21 KGPL has met 12% of its rough directly from miners, while in Q1FY22 the purchase from miners directly declined to 8%. **Robust improvement in debt coverage indicators, albeit; moderation in overall gearing**
The debt coverage indicators remained robust in FY21. PBILDT interest coverage ratio improved to 23.27x in FY21 (PY: 5.4x) on account of lower or meagre utilization of working capital borrowings during first few months of FY21, decline in LIBOR and reducing other cost like ECGC premium, which resulted in lower finance cost coupled with this, higher margins resulted in higher interest coverage ratio. TDGCA (Total debt to gross cash accruals) also improved to 2.31x as on March 31, 2021 (PY: 4.6x), on account of higher GCA (Gross Cash Accruals) led by higher margins and higher TOI. However, the overall gearing witnessed some moderation on account of increase in borrowing to 0.55x as at the end of FY21(PY:0.4x) to buy rough (company utilized about 100% of total limits as on March 31,2021).
Apart from entities combined in a group, KG has marketing affiliates in all the major diamond hubs which do not have any external debts as on August 31, 2021.

Substantial improvement in scale and profitability during FY21; despite covid impact.
During FY21 KGPL (combined) reported increase in TOI of 37% on a YoY basis from Rs.10,790cr in FY20 to Rs.14,754cr in FY21, despite laggard sales in Q1FY21. The increase in sales was primarily on account of improved demand led by USA and China. Demand from USA was on account of stimulus package coupled with restriction on leisure traveling which led to increase in consumer sentiments to luxury shopping like Gems and Jewellery. China too witnessed fast paced recovery in demand post easing of lock down restriction which also led to higher sales. Further, the PBILDT margin also witnessed a substantial increase during FY21 to about 7.97% compared to a low of 4.4% witnessed in FY20. The improved margin was attributable to higher realisation of polished diamond prices, improved yield coupled with lower rough prices.
Furthermore, during 6MFY22(referring to a period from April 1 to September), the company continued to witness a strong demand reporting a sale of Rs.6,771crore in KGPL on a standalone basis, Rs. 230crore in KJ and Rs.111cr in KJI, indicating a continued strong demand from its end user segment following the unlocking measures.
CARE expects the growth in revenue to continue given continuity of robust demand led by continued vaccination drives, continued restricted leisure spending and liquidity packages announced by governments.

Key Rating Weaknesses

Working capital intensive nature of business
KG's operations continue to remain working capital intensive. The rough diamonds (16% in FY20) are procured on an advance payment/ cash basis from miners directly with balance from affiliated supplier and others on a credit of 90-120 days. The creditor days were 52 days in FY21 as against 73 days in FY20. Furthermore, the processing of diamonds takes 3-4 months and average credit period is 1.5 months so that overall 3-4 months working capital cycle is common across CPD players. KGPL has large product diversity in its sales mix, pertaining to its large scale of operations. KGPL offers variety in sizes (0.1 carat to 3 carat), colors and clarity. To facilitate this variety KGPL has to maintain two - three months raw material inventory and finished good inventory of at least two months. KGPL's operating cycle improved to 114 days in FY21 vis-à-vis 137 days in FY20; change was due to improvement in collection days and inventory days. Though the working capital cycle has remained in rising trend over the years, the contribution of bank borrowing in financing the current assets has been decreasing, while the contribution of promoter owned funds has been increasing over the years.

Susceptibility of profitability to volatility in the prices of rough diamonds
Manufacturers in the CPD industry have limited bargaining power vis-à-vis both the diamond mining companies and the jewellery retailers who earn maximum profitability in the value chain. KGPL is dependent on imports to meet its requirement of rough diamonds, with the entire rough diamond purchase being imported. KGPL also procures polished diamonds for trading purpose. KGPL's profitability margins are susceptible to the price of rough diamonds and CPD which are market driven and volatile in nature. KGPL hedges net exposure in Forex through forward covers and option contracts.
Intense competition and fragmented nature of the CPD industry
India is the world's largest center for cutting and polishing of diamonds. However, the Cut & Polished Diamond (CPD) industry in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated G&J manufacturers leading to a high level of competition. The export oriented CPD industry is susceptible to various guidelines by Government of India, change in taxation structure, impacting the industry.

Valuation issue with custom department regarding rough diamond import albeit resolved:
In April 2019, custom authority had held back 2 import consignments of rough diamonds of the company of approx. $24 million~Rs.168 crore for further scrutiny. Auditor in its Audit report for FY21 has stated that, vide its oder dated June 14, 2021, the company has been allowed the said consignement to be released or re exported to supplier after payment of redemption fine and penalty totalling to Rs.14 crore.
The same has been paid by the company under protest.

Industry: Gems & Jewellery
India is the largest centre for cut and polished diamonds, annually processes about 1 billion pieces of diamonds valued at USD 23 bn. India exports 90% of the cut and polished diamonds and contributes to 29% of the global jewellery consumption. Today, 14 out of every 15 diamonds sold in the world are processed in India. The country's share in global diamond market stands at 65% in value terms and 85% in volume terms.
FY21 was an exceptional year with supply chain disruptions caused by the pandemic. Yet the Indian gems and jewellery industry exhibited resilience, adapted to the new normal and strived towards attaining recovery in exports, especially in H2FY21.
The miners adopted price over volume strategy which protected stock piling and eased pressure on inventory. The pent-up demand and healthy export orders during H2FY21 from the USA and China, which consume 50% and 20% of diamonds produced in the world, respectively, resulted from robust vaccination drives, stimulus package and reduced leisure spending helped reviving the CPD industry at faster pace. As per GJEPC, exports of cut and polished diamonds declined 12.1% from USD 18.66 bn in FY20 to USD 16.4 bn in FY21. However reported recovery on M-o-M basis from USD 0.92 bn in July 2020 to 2.26 bn in July 2021. Going forward, larger integrated players with strong sourcing relationships for raw material (e.g. DTC sight holders or those having direct arrangement with other diamond mining companies), those with better operating efficiencies, superior marketing network, geographically diversified clientele and a conservative forex/working capital management policy, are likely to exhibit better & stable credit profiles.

Liquidity: Adequate
KGPL on combined basis has reported GCA of Rs.937cr in FY21 (PY: Rs.284cr). Current ratio remained stable during FY21 at 1.75x (PY: 1.70x). Unencumbered cash and bank balance stood at Rs.89cr on March 31, 2021(Rs. 76cr as on June 30,2021). KGPL's average working capital utilization stood at 76% in the 12-month ended August, apart from that company has been utilizing more than 90%-95% of total bank lines from Jan,2021(as on date circa Rs.300cr of limits are unutilized with TOI growing). KJ's and KJI's average working capital utilization stood at 72% and 66% respectively in the 12-month ended August, 2021. Overall gearing stood at 0.62x(PY:0.4x), which gives head room for KGPL to borrow more. Healthy GCA, stable current ratio, comfortable cash balance, no long-term repayment obligations, lower overall gearing, no major capex in the near future and financial support from promoters, near full utilization of bank lines results in adequate liquidity position for the company.

Analytical approach: Combined.
CARE while assigning ratings has taken combined approach. KGPL has various subsidiaries, associates and joint ventures. These companies are combined due to operational and financial linkages, common brand, common promoters, fungible cash-flows and support provided by KGPL to various subsidiaries/ associates etc. The list of companies considered for our analysis are:

1. KGPL (standalone)
2. Kiran Jewelry(bank guarantee is given by KGPL)
3. Kiran Jewels (India)

4. Kiran Gems DMCC
5. Kiran Wind Energy Private Limited
6. Kiran Gems USA INC
7. Kiranmani Investment and Finance Private Limited

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology: Consolidation
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Rating Methodology – (Cut & Polished Diamond) CPD Sector
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments

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. KG offers a wide range of cut and polished diamonds with various shapes, clarity, colors and sizes. The company produces over 1.5 million carats of polished diamonds. The operations of the KG are well integrated from sourcing of rough diamonds CPDs to diamond studded jewellery manufacturing.
KG has established itself as one of the largest players in CPD in India. KGPL's manufacturing units are located in Surat spreading from approx. 10.55 Lakhs Sq. Ft.
KJ, has its manufacturing facility in SEZ unit in Surat, Gujarat. KJ is engaged in manufacturing of diamond studded jewellery. KJ caters to export markets majorly USA (78% of total sales) and UAE (8% of total sales). KJ sources 68% of its raw material demand from KGPL. Majority of KJ's sales are made in USA market through Kiran Jewellery Inc and Unique designs.
KJI, is into diamond studded jewellery manufacturing. KJI's manufacturing facility is located in Surat, Gujarat. KJI largely cater domestic clientele of Kiran group..

Brief Financials – Combined (Rs. Crore)	FY20(Console-A)	FY21 (Combined -Prov)
Total operating income	10,790	14754
PBILDT	474	1176
PAT	207	771
Overall gearing (times)	0.40	0.55
Interest coverage (times)	5.40	23.27

Brief Financials (Rs. crore)-KJ	31-03-2020 (A)	31-03-2021 (A)
Total operating income	652.92	369.56
PBILDT	35.49	18.94
PAT	17.77	8.25
Overall gearing (times)	0.44	1.02
Interest coverage (times)	5.36	3.86

A: Audited
Status of non-cooperation with previous CRA: Not Applicable

Any Other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	112.00	CARE A+; Stable
Non-fund-based - ST-Forward Contract		-	-	-	3.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	112.00	CARE A+; Stable	-	1)CARE A; Negative (04-Feb-21)2)CARE A (CWN) (02-Apr-20)	1)CARE A (CWN) (01-Aug-19)	1)CARE A+; Stable (07-Feb-19)
2	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A1	-	1)CARE A2+ (04-Feb-21)2)CARE A2+ (CWN) (02-Apr-20)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

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

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