Kiran Jewels (India)

November 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	48.80 (Enhanced from 20.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**48.80 (₹ Forty-Eight Crore and Eighty Lakhs 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).

Detailed rationale and key rating drivers

The ratings to the long term and short-term bank facilities of Kiran Group (KG) factors in improvement in scale of operations in FY22 (refers to period from April 01, 2021, to March 31, 2022) and in 5MFY23 (refers to period from April 01, 2022, to August 31, 2022), well established experienced promoters and the company's diversified business with international marketing setup. The rating also factors its association with the world's leading diamond mining companies which ensures steady supply of rough diamonds and its established relationship with customers.

The rating strengths, however, continue to remain tempered by working capital intensive operations of the company and susceptibility of margins to volatility in the prices of rough diamonds and foreign exchange fluctuations. The rating also factors in inherent risk, fragmented nature of cut and polished diamond (CPD) industry.

The ratings also take into account the continuing geopolitical tensions resulting in uncertainty w.r.t supply of rough diamond, continued sluggish demand from China, the second largest diamond consuming nation and continued depreciation of INR Vs USD impacting bank limits. However, the full impact of the above factors on the liquidity profile of Kiran group remains to be seen.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Efficient management of its working capital requirements leading to significant improvement in its liquidity and working capital cycle less than 80 days and working capital utilization below 85% on sustained basis.
- Significant Improvement in capital structure and debt protection indicators while maintaining EBIDTA margin of 8% pa on sustained basis.

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

- Working capital cycle over 120 days and utilisation of limits over 90% on a sustained basis.
- Decline in overall gearing above 0.8x on a combined basis
- Continuing geo-political issues impacting the sector resulting in decline in TOI below 15,000 crore and PBILDT margins below 4.5% 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 Gems and Jewellery industry, resulting which the group continues to be the largest exporter of CPD from India, accounting for about 5.7% of total CPD exports from India in FY22.
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.

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. The CPD sales is conducted through KGPL, which has the requisite expertise to process roughs into polished diamonds according to the best combination of carat, cut, colour and clarity. KGPL has sales exposure in both domestic and international markets through its group companies as well as marketing affiliates. KGPL marketing affiliates/group associates are located in key diamond centres and major markets like

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Hong Kong, USA, Belgium and UAE. Hong Kong is the biggest market for KGPL comprising 23% of TOI in FY22. Domestic sales contributed ~36.01% of standalone TOI of KGPL in FY22 which is steadily increasing over last four fiscals.

Sourcing of rough diamonds from world's leading diamond mining companies: KG group is a siteholder through various associates: KGPL, Kiran Gems DMCC and Kiran Exports B.V.B.A. KGPL has their sight holder agreement with both Alrosa and De Beers. KGPL procures most of its rough diamond requirements from its associates i.e., Kiran Exports B.V.B.A and Kiran Gems DMCC, a Dubai based Group associate and these companies procure rough diamonds from miners and secondary market, and supply to KGPL. The access to the primary sources of rough diamonds imparts a significant competitive advantage to the group as it ensures access to consistent supply of quality rough diamonds. Furthermore, it enables the group to plan production efficiently as the delivery timings of rough supplies are reasonably known to sight holders in advance. This enables the group to service a large customer base efficiently. 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.

Established relationship with customers: KGPL has a diversified customer base with exposure to jewellery manufacturers (through group companies) and retailers all over the world. KGPL has significant amount of exposure to group entities as sales in the international markets are routed through group companies. During FY22, the sales from top 10 customer accounted for about 55.14% as against 52% in FY21.

Substantial improvement in scale; albeit some moderation in profitability margins: During FY22, KGPL (combined) reported increase in TOI by 63% from Rs.14753.74 cr in FY21 to Rs.24,046.56 cr during FY22. The increase in sales was primarily on account of improved demand from all diamond consuming nations namely USA and Hong Kong. TOI of KGPL, KJ and KJI has also improved on Y-o-Y basis. Further, the KG group has achieved Rs.7423.26 crore (Excluding the inter party transaction) in 5MFY23, accounting for about 30% last year revenue. PBILDT margin continued to remain largely stable at 7.45% during FY22 (PY: 7.97%). Further PAT margin declined to 4.97% (PY: 5.23%) due to increase in finance cost, in line with increase in working capital borrowing to support growing scale.

Strong debt coverage indicators with improvement in overall gearing: The debt coverage indicators remained robust in FY22. Interest coverage ratio continued to remain strong at 15.03x in FY22 (PY: 16.39x) on account of robust PBILDT despite increase in finance cost. TDGCA also improved to 1.58x as on March 31, 2022 (PY: 2.31x), on account of higher GCA led by largely stable margins and robust growth in sales. Overall gearing improved to 0.34x in FY22(PY: 0.55x). However, the company' utilisation of limits was almost full as on March 31, 2022. On an average the maximum utilisation of limits of KGPL standalone remained high at 89% for the last 12 months ended July 2022.The company is in process of enhancing its limits by about Rs. 600 crore, accordingly the utilisation of limits are expected to reduce going forward. Further, the financial risk profile of the KG group is expected to remain comfortable over the medium term, supported by healthy accretion to reserve.

Key rating weaknesses

Working capital intensive nature of business: KG's operations continue to remain working capital intensive. The rough diamonds are procured on an advance payment/ cash basis from miners directly with balance from group entities and others on a credit of 90-120 days. The creditor days were 49 days in FY22 as against 52 days in FY21. 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 huge product diversity in its sales mix, owing 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 112 days in FY22 vis-à-vis 150 days in FY21; change was due to faster collection from debtors and reduction in inventory days.
NWC/ Current assets has increased over the last three fiscals from 39.20% in FY18 to 54% in FY21 on standalone level, which reflects increased contribution of equity in financing, and reducing contribution of lenders in financing the current assets but it decreased to 45.78% in FY22.

Susceptibility of profitability to volatility in the prices of rough diamonds and foreign exchange fluctuation: 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. The increase or decrease in the price of the rough diamond impact all the CPD manufacturers in the industry equally and so any increase in the price of rough diamond is pass on to the buyer of polished diamond. 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 and polished diamonds which are market driven and volatile in nature. PBILDT margin continued to remain largely stable at 7.45% during FY22 (PY: 7.97%).
KGPL enjoys natural hedge on most of its foreign exchange exposure KGPL is exposed to foreign currency fluctuation risk with respect to receivables and payables in foreign currency, while rest on net basis is covered through forward covers and options option contracts. However, the margins continue to remain exposed to forex risk owing to timing differences.

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.

Cut and Polished Diamond Industry

Demand for natural diamonds surpass pre covid levels in CY21; however, geopolitical tension continues to pose challenge

CY21, reported robust recovery in diamond jewelry demand backed by stimulus provided by government in key consuming nations. It crossed pre-pandemic levels with USA being major contributor to the global diamond jewellery demand followed by China and other European countries. Similar trend was also noted in Global Polished diamond demand. The demand was also fueled by lack of avenues for experience-based spending including travel and other discretionary spending primarily in USA and Europe. The robust growth in value also reflects increase in prices of polish diamond as well as precious metals during CY21. Further, during April 2022-Aug 2022, the overall gross Exports of Cut & Polished diamonds was at US$ 100.80 bn (Rs. 78,698 crores), showing a decline of 3.68% (1.59% Rs. term) as compared to US$ 104.65 bn (Rs.77,465 crores) for the same period of previous year, led by continued slower demand in China (The second largest consuming nations for diamond jewellery) coupled with supply issues of roughs as a result of ongoing US sanctions.

Although, CPD manufacturers with strong sourcing arrangement for its rough coupled with strong marketing networks are in better position compared to its peers, however the impact of Russia Ukraine war on rough supply and its resultant impact on prices of rough and margins remains to be seen for the industry as a whole and hence remains key monitorable. This apart, the continued depreciation of INR vs USD continues to hurt CPD players.

Liquidity: Adequate

KGPL on combined basis has reported GCA of Rs. 1292.15cr in FY22 (PY: Rs. 937.43cr). Current ratio remained in line at 1.83 in FY22 (PY: 1.74x). Unencumbered cash/bank balance stood at Rs. 265.51 cr. as on March 31, 2022. KGPL's average working capital utilization stood at 88.57% in the 12-month ended July 2022. KJ's and KJI's average working capital utilization stood at 96.20% and 86.56% respectively in the 12-month ended August 2022. Overall gearing stood at 0.34x (PY: 0.55x), which gives hand room to 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, results in adequate liquidity position for the company. However, the company' utilisation of limits was almost full as on March 31, 2022.The company is in process of enhancing its limits by about Rs.600 crore, accordingly the utilisation of limits are expected to reduce going forward.

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:

1. KGPL (Standalone)
2. Kiran Jewelry
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

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Criteria for short Instruments
Rating Methodology – Cut & Polished Diamond (CPD) Industry
Rating Methodology - Manufacturing Companies

About the company

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 changed to private limited company in September 2007. Kiran group offers a wide range of cut and polished diamonds with various shapes, clarity, colours and sizes. KGPL sold over 3.75 million carats and 2.2 million carats of polished diamonds during FY22 and 5MFY23 respectively. The operations of the KG are well integrated from sourcing of rough diamonds to Cut & Polishing of 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: Majority of KJ's sales are made in USA market through Unique Designs Inc. The manufacturing facility of KJ SEZ unit is in Surat, Gujarat. KJ is engaged in manufacturing of diamond studded jewellery. KJ caters to export markets majorly USA, Malaysia and India. KJ sources 68% of its raw material from KGPL.
KJI: KJI is into diamond studded jewellery manufacturing. KJI's manufacturing facility is located in Surat, Gujarat. KJI largely caters to domestic markets.

Brief Financials - Combined (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	August 31, 2022 (Prov.)
Total operating income	14,753.74	24,111.88	7,423.26*
PBILDT	1,176.21	1,795.54	NA
PAT	771.36	1,195.35	NA
Overall gearing (times)	0.55	0.46	NA
Interest coverage (times)	23.27	15.14	NA

A: Audited; Prov.: Provisional, NA: Not Available
*Excludes inter-party transactions

Brief Financials – KJI Standalone (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	August 31, 2022 (Prov.)
Total operating income	172.30	353.06	223.63
PBILDT	7.79	15.52	NA
PAT	4.41	9.22	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	14.95	23.26	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	48.80	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	48.80	CARE A+; Stable	1)CARE A+; Stable (10-Oct-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A; Negative (04-Feb-21) 2)CARE A (CWN) (02-Apr-20)	1)CARE A (CWN) (01-Aug-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facility	Complexity Level
1	Fund-based - LT-Cash Credit	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 facilities: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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